

BRITISH COLUMBIA MINISTRY OF AGRICULTURE AND LANDS

GUIDELINES FOR B.C. FOOD PRODUCERS & PROCESSORS
on
SELLING TO FOOD SERVICE DISTRIBUTORS

April - 2006

**CAN YOU SELL
TO RESTAURANTS
THROUGH
FOOD SERVICE
DISTRIBUTORS ?**

WHAT CAN YOU DO ?

**HOW MUCH
WILL IT COST ?**



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TABLE OF CONTENTS

FOREWORD	3
<hr/>	
1.0 THE B.C FOOD INDUSTRY AND WHERE YOU FIT	4
1.1 Canadian Food Industry Overview and Trends	4
1.2 How Food Industry Trends Affect B.C. Producers and Processors	5
2.0 THE ROLE OF FOOD SERVICE DISTRIBUTORS & HOW THEY CAN HELP YOU	7
2.1 Food Service Distributor Services	7
2.2 The Food Service Distributor Industry in British Columbia	7
2.3 The Food Production Industry in British Columbia	9
2.4 Relevant Industry Characteristics	9
3.0 AN OVERVIEW OF THE PRODUCER-TO-RESTAURANT FOOD SUPPLY CHAIN	11
3.1 The Players Within The Supply Chain	11
3.2 The Food Distribution Network	13
4.0 FOOD SERVICE DISTRIBUTOR SERVICES, REQUIREMENTS & PROCESS	16
4.1 Food Service Distributor Services and Purchasing Overview	16
4.2 Food Service Distributor Purchasing Requirements From Suppliers	18
4.3 Food Service Distributor Pricing and Financial Commitments	24
4.4 Food Service Distributor Sales Process	26
4.5 Follow-Up Once Sales Arrangements Are Established	33
5.0 INITIAL STRATEGIC THINKING YOU SHOULD CONSIDER	34
5.1 Your Primary Markets and Net Revenue	34
5.2 Your Food Product Uniqueness and Sales Potential to the Food Service Sector	35

6.0 MARKET RESEARCH AND MARKETING PLAN 36

6.1 Industry Overview and Market Research..... 36

6.2 Marketing Plan and Strategy 40

APPENDIX A..... 44

PRODUCER-TO-RETAILER SUPPLY CHAIN 44

APPENDIX C..... 75

FOOD SERVICE DISTRIBUTOR – PRODUCER MARKETING SHEET 75

FOREWORD

This 'Manual on Selling to Food Service Distributors' was prepared for British Columbia food producers and processors. It is intended to help your businesses to expand and prosper by understanding and entering (or growing within) the food service market.

The principles laid out in this document are based on significant research and analysis undertaken by Novacorp Consulting Inc. of Vancouver. It is as accurate and reflective of the industry as is possible within the scope of the work and the date it was prepared (April-2006). The preparation of this 'manual' was commissioned by the B.C. Ministry of Agriculture and Lands.

The Ministry hopes that the guidelines and information set forth, herein, will be useful to the food producing industry in the province. In particular, the manual is intended to help small and medium-sized food producers and processors in the British Columbia to capitalize on opportunities to market and distribute their products effectively.

This 'food service distributor' marketing manual provides information and guidelines which should help B.C. producers and processors sell your products to the food service sector. While "food service distributors" are an intermediary connection between producers/processors and hotels, restaurants, and institutions, they serve a very important role in the distribution and marketing process (accounting for some 90% of food service sales within British Columbia).

The Ministry of Agriculture and Lands encourages you to review the information and guidelines provided in this manual and, as appropriate to your business philosophies and requirements, to take advantage of the material presented to further your important marketing and business initiatives to the food service sector.

For additional information on Government of British Columbia efforts to support and expand the food growing, production and processing industry in the province, we encourage you to contact the Ministry at the following co-ordinates:

British Columbia Ministry of Agriculture and Lands
Industry Competitiveness Branch
808 Douglas Street – PO Box 9120 Stn Prov Govt
Victoria, British Columbia, V8W 9B4

1.0 THE B.C FOOD INDUSTRY AND WHERE YOU FIT

As a food grower, producer or processor, you are a key extension of a very long tradition in Canada. Our country has always been 'self sufficient' in providing food products for its residents and the world.

Global trading trends and agreements and, specifically those within North America (including Mexico), have generated significant pressures on Canadian food producers. These trade developments, combined with corporate consolidation in all areas of the industry, have produced major challenges for the Canadian food production industry, especially for small and medium-sized producers and processors in the country. This has been exacerbated by the climate, seasonality and distribution system challenges faced by many.

1.1 Canadian Food Industry Overview and Trends

The food industry, in all its variations, is a large and growing industrial sector in Canada. According to Statistics Canada, it is the second largest among manufacturing industries in the country. While its expansion has traditionally been a function of demographics and new products, health considerations have become a major additional element of the market in recent years.

The Government of Canada indicates that ... "growth in (the) food industries is now influenced, to a large extent, by demand for healthier foods". Increasing awareness, as well as the aging of the Canadian population, is causing consumer tastes to generally evolve towards higher fibre, fruit, vegetable and cereal products and lower fat dairy, meat and other products.



**TRENDS
IN THE
FOOD INDUSTRY**

In addition to an expanding population, other current demographic developments have influenced food sales. Annual population growth in Canada, which eventually translates into increased demand, has been slightly over one per cent since 1980. In the recent past, changes have increasingly taken place in ethnic, household and labour force composition. This, in turn, has created demand for new and different food commodities.

Immigration has, lately, outpaced natural population growth and is changing Canada's ethnicity pattern. This increased diversity impacts the food service industry and the menu options it offers.

The larger numbers of single-person, and otherwise smaller households together with expanding participation in the labour force by women, is boosting the demand for prepared, higher value-added food commodities and snack foods.

Food commodity producers are influencing demand with product innovation and healthier versions of existing commodities. Examples include filtered milk and calorie-reduced butter, as well as lower fat 'ice cream' in the dairy industry and low fat 'potato chips' in the snack industry.

Organically grown and produced products have increased dramatically in appeal. Large, multi-national companies have responded to this market demand growth. This response has resulted in major production centres in the southern United States which have placed significant competitive pressures on the much smaller, traditional 'organic' producers in Canada and elsewhere.

While new and healthier products are in demand and command higher prices, the market is very competitive and the products are often difficult and expensive to produce and deliver. Many 'healthy product' producers in Canada are relatively small compared with 'corporate' producers in the United States. They, therefore, face production efficiency and distribution cost challenges.

Following changes in the cultural and socio-economic environment, consumer demand for a greater variety of healthier, fresher, higher quality, more convenient foods is evident. These market forces are placing significant challenges on the 'fresh food industry' in particular. The traditional ways of matching food demand and food supply is rapidly becoming outmoded, as consumer demand splinters into smaller niches and as food technologies evolve. This is especially true within the food service market. Focusing the growing number of new food products on new food service customer requirements takes increasing marketing innovation. Many 'food service distributors' are current and pro-active in this area.

Product pricing within the Canadian food product industry is also an important factor. For many businesses, 'corporate' production and competition from some large U.S. and international producers places enormous pressures on product pricing. Indeed, it is common for small and medium-sized producers in Canada to require higher prices from their customers than their "southern" counterparts are offering. Oftentimes, with 'superior' products, Canadian producers and processors need to promote their image and products effectively to compete with their (relatively) new and evolving competition.

Price pressure is increasingly eroding profits, thus demanding more cost-effectiveness in the logistics operations of producers. So called 'fresh foods', in particular (due to their perishable nature) will rely, increasingly, on transportation and logistics to effectively penetrate British Columbia's food service markets.

1.2 How Food Industry Trends Affect B.C. Producers and Processors

Trends in the food industry, particularly those in North America, have had a fundamental impact on British Columbia producers and processors. These trends, and their impacts, need to be recognized and addressed.

The focus of this Ministry of Agriculture and Lands manual is on the small and medium-sized producers and processors of the province. Given the consolidation that has occurred in the food industry (and that is continuing to take place), B.C. producers and processors are facing considerable and new competitive challenges.

Evolving food industry trends are a dilemma for British Columbia. On one hand, 'corporate' growth and industry consolidation make it increasingly difficult for provincial producers and processors to

successfully compete. On the other hand, increasing interest in (and consumption of) healthy and regionally produced food products provides new market opportunities for the industry.

Food service distributors in the province must respond directly to the changing demands of their market (i.e. hotels, restaurants and institutions). As restaurant patrons expand their preferences for regionally produced and healthy food products, food service industry operators must and do respond directly. This provides an emerging opportunity for the small and medium- sized food producers and processors of British Columbia.

New food service opportunities are not without challenges from large, 'corporate', 'year round' suppliers in the United States, Mexico and elsewhere. Nevertheless, there is an important opportunity for British Columbia food suppliers to expand their sales to the food service sector in light of market demands and despite the competitive pressures of much larger, international food producers.

2.0 THE ROLE OF FOOD SERVICE DISTRIBUTORS & HOW THEY CAN HELP YOU

Food service distributors are companies which buy directly from food product and restaurant suppliers and then re-sell these products to the food service (or hotel, restaurant and institutional meal supply) industry. They 'mark-up' what they buy to cover their services to make a profit.

For simplification, in this manual, food service distributors are often referred to using their acronym, FSD's.

2.1 Food Service Distributor Services

There are a wide variety of FSD's located throughout British Columbia. Some service the food service (hotel/restaurant/institution) industry throughout the Province, while others focus on regional or specialty product supply to the food service sector. This manual will help you to understand which companies are best suited to your objectives, and how to approach and work with them. It will also provide you with specific information and guidelines to assist with your sales efforts to the food service distributor sector.

Generally, FSD's can help small and medium-sized food producers and processors in several ways:

- By providing direct sales and delivery linkages with the food service industry (which may, otherwise, be difficult to achieve on your own).
- By undertaking the responsibility for marketing, sales and (local) delivery to a wide variety of food service customers (which is possible by the variety and volume of products they handle and the sales force they employ).
- By purchasing and paying for your products (albeit, usually, at a lower price than you may secure elsewhere) on a regular basis knowing that your products are 'saleable' to their customers.



**WHAT CAN
FOOD SERVICE
DISTRIBUTORS
DO FOR ME ?**

2.2 The Food Service Distributor Industry in British Columbia

The food service industry in North America has evolved significantly over the past few decades. These continent-wide developments have impacted the food distribution sector in a major way, within both Canada and British Columbia.

Company acquisitions and consolidation within the industry have been significant over the past 10 to 15 years. This consolidation, and the evolution of larger companies and fewer distribution opportunities for suppliers, is continuing.

Research undertaken by the B.C. Restaurant and Foodservice Association (BCRFA) indicates that the size of the food service sector in British Columbia in 2004 was \$7.9 billion. According to BCRFA, the industry employed some 167,200 people in that year, represented about 5.2% of the provincial gross domestic product and comprised some 9,547 restaurants (of which about 67% were independently owned and operated).

It is estimated that the food service sector purchases some 90% of its food and other supplies through food service distributor (FSD) businesses. How this business is distributed amongst this private, and very competitive, industry is not totally clear. It is likely, however, that the largest FSD's in the province (Sysco and Neptune), through their development, based on the acquisition of smaller companies, now control some 60% to 65% of the B.C. market.

There are many medium-sized and smaller food service distributors located throughout British Columbia. They tend to be located close to their primary markets in the most populated centres, especially Greater Vancouver. Most of these companies have evolved over considerable time, and are sound businesses dedicated to supplying the food service industry. A large number specialize in specific products (e.g. meats, produce, seafood, etc.) and many concentrate only in key populated areas. All offer distribution opportunities for B.C. food product suppliers.

The wide range of FSD's in the province supply a variety of food service products, including all the requirements of the industry. Supplies offered cover the complete spectrum from food products to chemical products to kitchen equipment. Most food service distributors supply food products, and this is the predominant component of the industry. While some specialize in specific types of food products, others offer an array of food choices. Each company defines its supply categories somewhat differently. Nevertheless, the following product groupings are representative of the FSD sector:

- protein products (including seafood, meat and poultry);
- dairy products (including cheese);
- fresh produce and fruits;
- spices, oils and herbs;
- coffee and beverages;
- grocery, frozen and miscellaneous food products;
- paper, packaging and chemical products; and
- smallwares, equipment and supplies.

The largest food service distributors (e.g. Sysco, Neptune, etc.) offer a full range of food service products and are known in the industry as "broad line" or "multi-line" suppliers. Some also sell their own "branded" products which they source externally in large volumes and sell to their customers under their 'house brand' name. Most small and medium-sized FSD's specialize in specific food groups or offer a more limited range of food service sector products.

In general (with the exception of seafood sellers), food service distributors source the vast majority of their food products outside of Canada. With the 'year round' supply requirements of the food service sector, the seasonality of many food suppliers in the province, the large corporate production

businesses in the southern United States and Mexico and the demand for off-shore products, the focus on international supply can be expected to be ongoing.

A selection of some B.C. food service distributors, along with a corporate profile and key contact coordinates for each, is included in Appendix B. This is only a representative list of FSD's situated in British Columbia. Many others are part of the provincial industry and should be identified and pursued by B.C. producers and processors at your discretion.

2.3 The Food Production Industry in British Columbia

“British Columbia's agriculture, fisheries and food sector is one of the largest and most dynamic industries in the province. Generating sales of more than \$21.9 billion annually and employing over 280,000 British Columbians, the agri-food industry is a thriving sector of the provincial economy. The province is recognized for producing a greater variety of quality food products over a wider range of geographical and climatic conditions than any other area in Canada.”

“The British Columbia food and beverage processing industry is the third largest manufacturing industry in the province and is growing at an average rate of eight percent per year. This sector is comprised of over one thousand food and beverage processing firms that generated \$5.6 billion worth of sales in 2002. The provincial food manufacturing sector is characterized by the predominance of small and medium-sized businesses which provide the sector with flexibility for efficiently adapting and responding to changing consumer demands.”

“The marketplace offers tremendous opportunities for new and exciting food products for discriminating consumers seeking nutritious, flavorful, unique and healthy foods. British Columbia's fast-growing and ethnically diverse population creates a multitude of consumer tastes and preferences for products and services that can be met by progressive British Columbia food producers, processors and retailers.”¹

2.4 Relevant Industry Characteristics

The characteristics of the food service sector generate a certain number of challenges within the supply chain management process as follows:

- the relatively short ‘shelf-life’ (and perishable nature) of many foods requires a rapid turnover of products along the supply chain (i.e. from producer to consumer);
- the variability of demand, particularly for seasonal reasons, requires flexibility in FSD food product demand forecasting and order management; and

¹ “How To Sell To Major Food Retailers In British Columbia” – Guide – 2004 – B.C. Ministry of Agriculture, Food and Fisheries – Industry Competitiveness Branch

- the distribution chain, combined with the relatively low volumes of B.C. producers and processors, induces logistical challenges and (relatively) high costs.

3.0 AN OVERVIEW OF THE PRODUCER-TO-RESTAURANT FOOD SUPPLY CHAIN

This 'manual' provides an overview of the supply chain connecting food producers and processors with restaurants in British Columbia. The "supply chain" is the network of companies connecting producers, processors and fishers with the ultimate consumer of the products. B.C. products may be consumed in hotels, restaurants, food outlets, cafeterias, schools, hospitals and other institutions ... and they are purchased by consumers at the retail level from large grocery chains, independent grocery stores and specialty stores.

The food supply chain connecting the producer and the consumer is, for purposes of this 'manual', the "distribution system" for food and beverage products in British Columbia. The supply chain can be confusing, with many variations occurring depending on arrangements made amongst the parties for specific products, marketing and distribution channels. This document, however, provides a simplistic description of the network in British Columbia for small and medium-sized B.C. food producers in the hope that it will contribute to the rapidly growing recognition and inclusion of B.C. products on restaurant menus throughout the province.

The 'producer-to-restaurant' supply chain is described, graphically, in Section 3.2. The 'producer-to-retail' supply chain is described, graphically, in Appendix A.

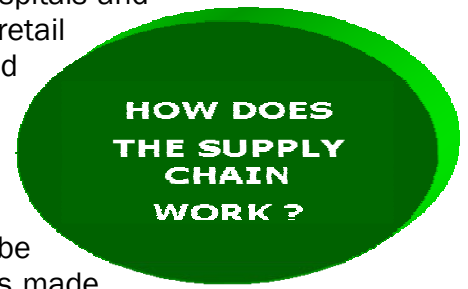
3.1 The Players Within The Supply Chain

The principal types of business involved in the British Columbia fresh and processed food product supply chain are summarized and described briefly in the following paragraphs.

Growers, fishers, producers and processors are the beginning of the food system in the province. With the exception of meat and poultry producers, where product is distributed directly to packers or buyers for slaughtering and packing, fresh and processed food products can be and are distributed directly to packers, shippers, wholesalers and/or food service distributors.

Once a crop is harvested, or fish are delivered to the dock, the product is prepared for shipping either on-site or at a packing facility. The packer normally washes, grades, packs and (often) cools the product before shipment. Washing, grading and/or some packing is often done by producers who, in turn, sell the product to wholesalers, distributors, processors and/or directly to retailers and restaurants ... although direct sales to restaurants is not common (i.e. there is usually one, and often more, intermediary companies involved).

Shippers receive product directly from the producer, the packer and/or the processor and transport the goods, with or without ownership, to the next company within the supply chain which is, most frequently, a wholesaler (for retail sales) or a food service distributor (for hotel, restaurant and institutional sales). Shippers tend not to be involved in the intra-provincial food supply chain in British



Columbia, but are more predominant in the supply network for food products imported from the United States.

Brokers are the least visible players within the distribution process. These individuals or companies serve either buyers or sellers by locating supplies and negotiating their sale.

They, generally, do not take ownership of the product but, rather, act as agents on behalf of a grower, growing region, product group, shipper or buyer. Brokers are not common within the food service (i.e. producer-to-restaurant) supply chain in British Columbia. They tend to be more involved within the retail (i.e. producer-to-grocery/food retailer) supply chain and, then, primarily for specific products and/or geographic areas (often in the United States or offshore). Brokers are heavily involved with food product imports to B.C. from offshore suppliers, in which case they often sell directly to food service distributors in the province. They are not of key importance to the objectives of this 'manual' which focuses on current producer-to-restaurant distribution characteristics in B.C., and the role of food service distributors.

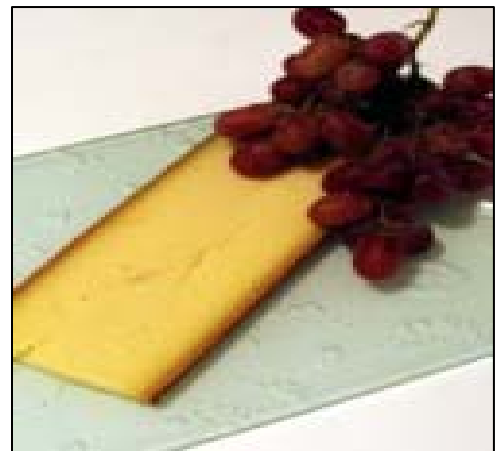
**PARTICIPANTS IN
THE
SUPPLY CHAIN !**

Wholesalers buy products from brokers or directly from producers, packers, processors, shippers and importers. In British Columbia, their primary function is to procure product, undertake some deconsolidation and storage, and market and distribute it to retail and/or food service customers. Many food service distributors in B.C. consider themselves as, and are considered by others as, wholesalers. Some smaller wholesalers, known as jobbers, often buy product from larger wholesalers and re-sell to retailers and restaurants.

Wholesalers in B.C., generally as this term is used within the industry here, are an integral part of the producer-to-retailer supply chain and not a key player within the producer-to-restaurant supply chain. They generally deal in high volumes, which is not consistent with the buying habits of many restaurants. Wholesaler sales direct to restaurants is generally less than 5% and frequently less than 1% or 2% of gross volume. Wholesaler sales to FSD's in the province is generally within similarly small proportions.

Food service distributors (FSD's) are the focus of this 'manual'. In B.C., they effectively act as the primary intermediaries within the producer-to-hotel/restaurant supply chain. Some of these companies (e.g. Aramark and Compass) are primarily involved in the distribution of product to institutional buyers (e.g. schools, hospitals, etc.), and sometimes provide full food service operations in cafeterias, at arenas and for major events.

Because of their markets, food service distributors sometimes undertake some 'value added' operations (e.g. product deconsolidation, packaging, sorting, storing, inventorying, peeling, slicing, etc.) which the wholesalers in the province generally do not. This 'tailoring' of products for the food service customers reflects the lower customer volumes purchased (vs. retailers), the more frequent delivery and the variety as well as the special needs and requirements of hotels and restaurants.



There are a number of B.C. players within this segment of the industry which are owned by national and international distribution companies. There are numerous, independent, small and medium-sized FSD's located in British Columbia serving regional food service markets. All of these FSD's are the principal focus of this 'manual'. All food service distributor opportunities should be investigated and pursued, as appropriate, by individual producers and processors interested in this market.

3.2 The Food Distribution Network

There are three distinct sectors within the British Columbia food distribution industry as follows:

- distribution of food products and beverages between producers and fishers (including processors) and the retail sector (e.g. retail food stores);
- distribution of food products and beverages between producers and fishers (including processors) and the hotel/restaurant sector (e.g. quick-service restaurants, family dining, fine dining and hotels); and
- distribution of food products and beverages between producers and fishers (including processors) and the institutional sector (e.g. schools, hospitals, rehabilitation centres, prisons, etc.)

The distribution companies which operate within each of these sectors tend to be different and distinct from those which operate within the other sectors. There is some, but little, overlap. The exhibit on the following page portrays these three distinct sectors graphically and identifies their distinct business model characteristics. Wholesalers are the primary distributor to the retail sector while food service distributors (FSD's) are the principal distributor to the hotel, restaurant and institutional sectors.

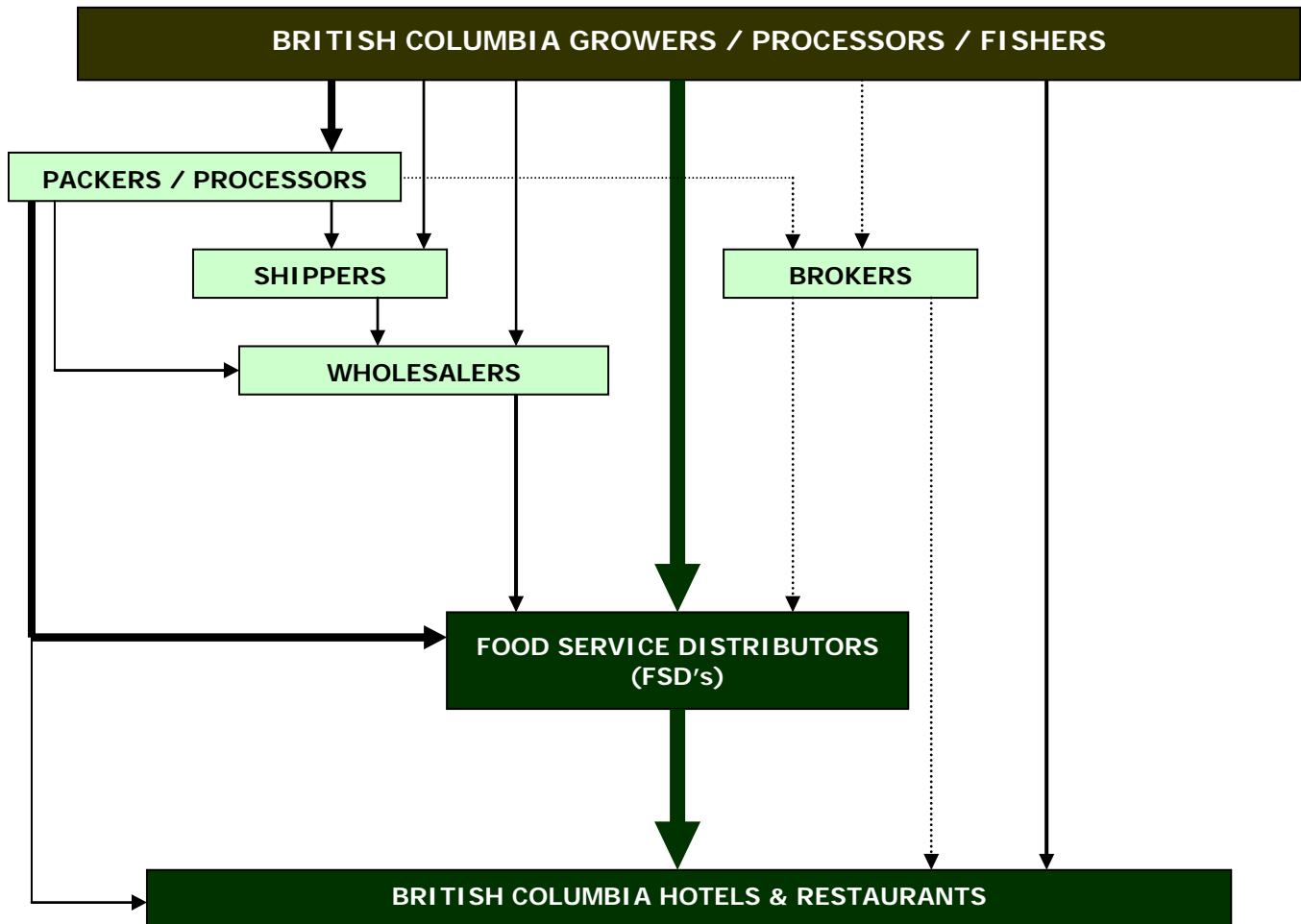
The food supply chain in British Columbia involves a variety of businesses of various types, ranging from producers (farmers) to fishers to warehouse operators to processors to trucking and logistics companies to brokers and wholesalers and food service distribution companies. This is not unique to B.C.



The supply chain is, effectively, the network of companies and links which connects the producer of a product with the consumer. Within the food product industry, all of the companies involved are profit motivated, private sector businesses. The food product industry is very competitive.

In British Columbia, there is a distinct difference between the distribution system's logistics and the players involved, depending on whether the end-market for food products is the food service sector (i.e. hotels, restaurants and institutions) or the retail sector (i.e. food retailers). The unique supply chain characteristics connecting producers to the food service sector are profiled below.

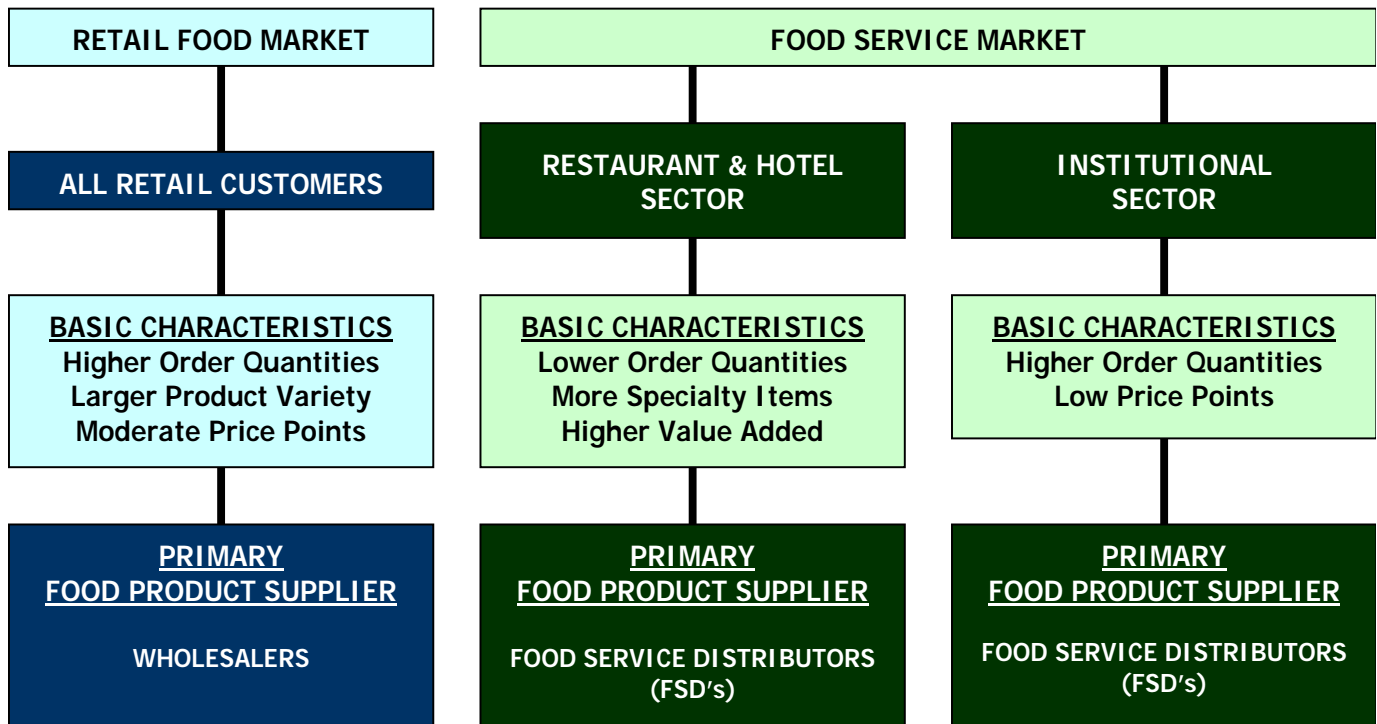
BRITISH COLUMBIA PRODUCER-TO-RESTAURANT SUPPLY CHAIN



The (producer-to-restaurant) supply chain described in the above exhibit is important for British Columbia food producers and processors to understand. There are numerous opportunities to 'circumvent' the involvement of FSD's (e.g. through direct sales to restaurants). Nevertheless, food service distributors can and do play an important role for many food suppliers.

For a better understanding of the overall industry, a profile of the types of companies involved in both the B.C. producer-to-restaurant and producer-to-retail supply chains is provided in the exhibit on the following page.

BRITISH COLUMBIA FOOD DISTRIBUTION INDUSTRY SECTORS



Most food products and beverages sold to B.C. hotels and restaurants are sourced and supplied by the food service companies located in the province. Of these, the large, international firms control most (i.e. 60% to 65%) of the market.

4.0 FOOD SERVICE DISTRIBUTOR SERVICES, REQUIREMENTS & PROCESS

Food service distributors can and do provide an important service to B.C. producers and processors, depending on their size and market objectives. The marketing advantage they provide also comes with some costs and commitments.

This chapter summarizes the principal aspects of food service distributor (FSD) business operations as they pertain to existing and prospective B.C. producers and processors. Included is information which is directly relevant to provincial food product suppliers in order to assist you in preparing for and selling to FSD's in British Columbia.

Information on food service distributors has been consolidated from research of a variety of FSD's ranging from the largest, multi-national firms to medium-sized companies to small, regional distributors. The theme amongst the food service distributors, however, is consistent. Producers and processors wishing to sell to this sector should be prepared to address most or all of the sector practices and requirements summarized below. In general, the larger the food service distributor, the more rigid and extensive are their purchasing requirements and the more established (and less flexible) are their procurement practices.

The relevant information provided (below) includes the following:

- an overview of food service distributor business operations, services and purchasing;
- a summary of food service distributor requirements for suppliers;
- food service distributor pricing and mark-up; and
- the process to follow in selling to food service distributors.

4.1 Food Service Distributor Services and Purchasing Overview

Some food service distributors, including the larger ones, have recently shown an interest in attracting and supplying more food products from B.C. producers and processors. Some supply a wide range of food and other (e.g. chemical, packaging, equipment, etc.) products to the food service sector. Most focus on food products, and the majority source their products throughout Canada, in the United States and internationally. A few have recently evolved to cater to food products sourced in British Columbia. Generally, however, FSD's source their food products where they can achieve 'year round' supply, product consistency and the best prices.

As reported in a 2005 study: *"Purchasing decisions of food service distributors are driven by customer demand and profitability of items. Even though their customers might express increased interest in local products, it is reported that only about up to one-third of the products these*

distributors carry come from B.C. Geographic origin of food remains a secondary consideration for distributors, clearly preceded by quality, consistency, and price.”²

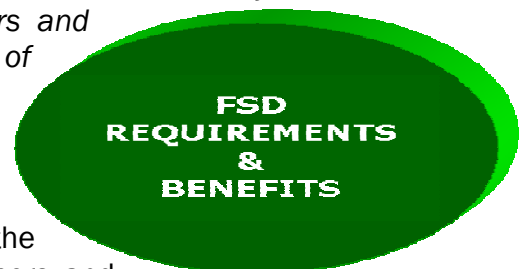
It is expected, based on the research conducted, that ‘one-third’ of FSD food products being carried from B.C. producers and processors is likely an exaggeration. There is, clearly, an industry practice and culture to source most of its supplies outside of the province and, indeed, outside of Canada. This still leaves opportunities for B.C. producers and processors, but the sales and competitive challenge should not be taken lightly. B.C. suppliers must have the right products, and be prepared for and aggressive with their marketing efforts.

Generally, the business models for FSD’s are based on relatively large volumes, product quality and variety, competitive pricing, supplier service and consistent and reliable ‘year round’ supply. Many rely heavily on suppliers in California, elsewhere in the southern United States and Mexico. Most also source from ‘offshore’ suppliers. All buy directly from suppliers (or wholesalers) and sell directly to the food service market. They generate revenues on a ‘mark-up’ of sale price over purchase price. All are also actively involved in sales and marketing to their targeted food service markets, and maintain ongoing relationships with their customers to this end.

While all food service distributors focus on ‘year round’ product supply, many will also purchase seasonally produced fresh products (in response to their customers’ demands) if these adequately meet their quality, volume, pricing and other requirements.

The largest FSD’s have more stringent requirements for suppliers. But they offer wide coverage of the sector and account for most of the sales to the food service sector. There are, however, many other medium-sized and smaller food service distributors who carry on efficient and effective business operations, and who are networking with and supplying many customers in the marketplace.

As the aforementioned study describes: *“Large distributors (e.g. Sysco and Neptune) and specialty distributors (e.g. Seven Seas) have high expectations of suppliers’ product quality and standards, competitive pricing, superior customer service, and compliance with safety and insurance requirements. At the same time, smaller regional distributors and specialty distributors recognize that carrying a larger number of fresh B.C. products can give them a competitive advantage over the large distributors that dominate the frozen and dry goods markets.”²*



It is the sales network, contacts and ongoing initiatives by the FSD’s which provide opportunities for British Columbia producers and processors. This, combined with the regional storage and daily delivery of food and beverage products to food service customers, is what provides an important opportunity for British Columbia producers and processors.

These FSD services, however, come with a cost and, often, with some challenging requirements for suppliers (especially smaller producers and processors). However, in order to effectively (and

² “Investment Agriculture Foundation of B.C. – Food Service Sector” – August-2005 – Roger Barnes Marketing Planning

willingly) 'sell' to the food service sector in the province, both producers and processors need to consider the advantage that is offered by FSD's vis-a-vis their sales initiatives directed at other markets and customers.

4.2 Food Service Distributor Purchasing Requirements From Suppliers

Food service distributors in British Columbia, generally, have an established set of requirements for purchasing from suppliers. These requirements, necessarily, apply to provincially located producers and processors who wish to sell to B.C. FSD's. Specific purchasing requirements vary amongst the food service distributors and amongst the products they purchase.

While these purchasing requirements reflect the 'business models' of the food service distributors (notably, in most cases, their high volume and international sourcing), British Columbia producers and processors must comply with the rules, regulations, processes and requirements of the food service distributor sector in order to successfully 'do business' with most FSD's.



While purchasing and supply requirements for producers and processors vary by (FSD) company, the following paragraphs outline the requirements that B.C. producers and processors should be prepared for as they enter into discussions with operators within this sector.

LEGAL AGREEMENTS AND INSURANCE

All of the larger FSD's, and some of the medium-sized distributors, require all suppliers to provide the following:

- a "hold harmless agreement" which passes all food safety and other issue liabilities from the FSD to the supplier; and
- a "certificate of insurance" which protects the supplier (and, thereby, the FSD) from any liability challenges regarding food quality, safety, and delivery requirements amongst other potential legal issues.

With the above said, specific restaurants may request, through FSD's, specific products and may be willing to 'take the risk' without legal liability and insurance agreements being 'in place'. In this case, the FSD's will, generally, accommodate the customer's requirements while ensuring, through legal agreement, that their liabilities are protected and agreements are established with the 'end customer'.

FOOD SAFETY AND NUTRITIONAL COMPLIANCE

Many food service distributors, especially the larger ones, require that all of their suppliers comply, strictly, with all federal and provincial food safety regulations. All producers and processors should be

positioned and able to do so. Meat, seafood and poultry producers are required under federal law to comply with regulations as a matter of normal business practice.

The Food Safety Enhancement Program (FSEP) is the Canadian Food Inspection Agency's (CFIA's) approach to encourage and support the development, implementation and maintenance of Hazard Analysis Critical Control Point (HACCP) systems in all federally registered establishments of the meat, dairy, honey, maple syrup, processed fruit and vegetable, shell egg, processed egg and poultry hatchery sectors. Generally, food producers and processors that do not require federal inspection, fall under provincial food safety statutes.

Food producers and processors in British Columbia, who want to sell to food service distributors, need to consider their current and near-term positioning and requirements relative to HACCP and other federal and provincial government regulations. **It is important for suppliers to be in contact with the local health authorities and other regulatory agencies that have jurisdiction over their particular products and to be aware of the needs of their customers.**

Nutritional labeling requirements are evolving. It is expected that, in the near future, appropriate information will be required (likely on the bill of lading) for food products delivered to the food service industry (and, therefore, to the FSD's which supply this industry).

Canadian regulations do not now require that nutrition information be provided in any particular format. Although a "standardized presentation format" of nutrition information has been set forth in the "Guide to Food Labeling and Advertising", that format is voluntary and only consists of the heading ("Nutrition Information") including a statement of the serving size, the "core list" of nutrients (energy, protein, fat and carbohydrates) plus optional nutrient declarations given equal prominence in a standardized order.

However, new regulations regarding nutrition labeling, nutrient content claims and diet-related health claims came into effect for food retailers in December, 2005. These regulations apply now to food service distributors with more than one million dollars in gross revenues with smaller suppliers having until 2007 to comply. Under the new guidelines, suppliers are obliged to provide written nutrition information for all products that will be used as ingredients in the preparation of food by a commercial or industrial enterprise or institution (i.e. food service). For their part, all FSD's are required to keep these supplier nutrient specifications sheets on file in order to be able to respond to consumer requests for information about the nutritional content of ingredients.

Nutritional information regulations are evolving and can be somewhat complex. B.C. food producers and processors need to stay informed of these developments, regardless of the markets they sell to. For that reason, the following websites are provided for your use and further information:

<http://www.inspection.gc.ca/english/fssa/labeti/guide/ch5be.shtml#5.14>

http://www.hc-sc.gc.ca/fn-an/label-etiquet/nutrition/reg/regulations-reglements-faqs_e.html#a1

FEDERAL INSPECTION

For food service distributor sales, generally, protein suppliers must be federally inspected. Otherwise, FSD's will sell only to specific customer orders from specific suppliers. As national and provincial standards and inspection requirements expand through the food-to-consumer sector in the coming years, B.C. food producers and processors need to plan accordingly.

TRANSPORT TEMPERATURE CONTROLS

Most FSD's require a temperature controlled environment for perishable products during their transport from the producer to the (temperature controlled) warehouse of the food service distributor. This requirement, generally, needs to be verifiable through 'in-transit' records via temperature recorders (depending on the length and time of transport). Many FSD's check these records when supplier trucks arrive, and will reject the goods being delivered if the temperature control records are not adequate or indicate variations outside of acceptable levels.

For the additional reference of B.C. producers and processors, detailed information on transportation guidelines and requirements (including temperature controls) is available in the Canadian Food Inspection System's "Good Transportation Practices Code" which can be accessed from their website at the following address: <http://www.cfis.agr.ca/english/cnsitdoc/transport/transporte.shtml>);

UNIQUE PRODUCTS

Food service distributors are, generally, looking to source "unique" products from British Columbia suppliers. These products need to have particular appeal to distributor food service customers. Each FSD has many sourcing options, including and especially California producers. They are reluctant to carry provincially sourced "me too" products which they already source on a regular and 'year round' basis from suppliers in the southern United States, Mexico and 'off-shore'.

PRODUCT VOLUME

British Columbia FSD's, generally, need to be convinced that their suppliers can provide sufficient volume to satisfy their (hotel and restaurant) customer requirements, and to supply this volume reliably and consistently. For 'chain restaurants', volume requirements may be substantial. For independent restaurants, they may not be so significant.

Regardless, food service distributors in the province are more inclined to access product from suppliers who demonstrate that they are capable of supplying significantly increased volumes if the food service market so desires. This flexibility to expand (and commit to expanded) supply, based on demand, is important to the potential for B.C. producers and processors to successfully sell to British Columbia FSD's.

PRODUCT VARIETY

Most FSD's in the province recognize that many local producers and processors (which appeal to the food service market) are limited in capacity and capability. This is contrasted with the much larger, corporate producers in the southern United States, Mexico and 'off-shore' (which are the predominant suppliers for B.C. food service distributors).

Research has shown that the larger food service distributors are more interested in 'local' suppliers that provide a variety of 'saleable' products (i.e. a 'mix' of several types of unique products). While they will purchase one or two products from a single supplier, producers and processors can expect to find the sales process easier if they can offer a range of suitable products.

For provincial producers and processors, therefore, it is especially important (when selling to FSD's) to offer a wide variety of products. This may come from 'internal' production or from coordinating sales and supply initiatives with your colleagues.

Nevertheless, to the extent that B.C. suppliers can approach FSD's with a range of high quality and unique products which may appeal to their customers, the more success they are likely to achieve.

PRODUCT QUALITY, CONSISTENCY, CLEANLINESS, PACKAGING & PRICING

Food service distributors, unanimously, require that food products they purchase are high in quality, consistent in size and quality, always clean, packaged appropriately and priced competitively. Producers and processors in British Columbia must address these basic requirements in order to sell successfully to this market.

It is important for you, as a producer or processor, to recognize that the customers of food service distributors (i.e. hotels, restaurants and institutions) require clean, consistent and high quality products for their customers. In turn, the FSD's require these product attributes from their suppliers.

Food service distributors are not in the business of cleaning or repackaging products from their suppliers. A few do, however, undertake some limited product processing (e.g. peeling, slicing, dicing, assembly, etc.) and custom packaging to meet the specific needs and requirements of their food service customers. Nevertheless, as a prospective supplier, you must be prepared to supply a high quality product which is clean, packaged effectively in (relatively) new boxes or containers and be consistent with this supply approach. Without these attributes, your ongoing sales objectives will not be attained, even if you are successful initially.

The requirements of food service distributors vary, and these variations extend differently to different food product groups. It is crucial that you, as a prospective supplier, speak directly with FSD buyers to understand their expectations and, then, to address your ability to meet these requirements. The following will give you some preliminary thoughts and information in this regard:

- product quality – this is essential (given that your product will be, eventually, sold to the food service sector whose well being is dependent on food quality and customer satisfaction) and,

you will recognize that, federal inspection requirements are mandatory and always in force with respect to certain products such as meat, seafood and poultry;

- product quality consistency – the products which you deliver to FSD's must maintain high product quality consistency (within each shipment and for all shipments over the longer term) for your ongoing business relationship to be maintained (i.e. second level products need to be excluded and sold to other markets);
- product cleanliness – this is critical for all products delivered since FSD's are not established to wash (or otherwise enhance) food products before delivery to their customers and your very relationship with food service distributors depends on both freshness and cleanliness of the food products supplied;
- product packaging – has two tiers: (1) packaging size that is required by restaurants (most important for processors); and (2) shipment (to FSD) packaging ... both of which must be consistent with both FSD and restaurant requirements with all packing containers being in good condition so as to project an image of quality, reliability and confidence;
- package labeling – generally, must include (relatively simple) carton and pallet descriptions of the product, its supplier's name and location (for traceability requirements), its weight and/or volume contents and its harvesting or processing date (Note: 'Best Before' dates and UPC coding are not normally required in this industry, but the requirements for nutritional content and labeling are evolving and are discussed in more detail earlier in Section 4.2 under the sub-section "Food Safety and Nutritional Compliance);
- product 'shelf life' – is especially important for fresh (albeit refrigerated) products and suppliers must recognize that FSD's generally 'warehouse' their food products for several days before delivery to their food service customers thus requiring, at a minimum, a 'shelf life' of 3 or 4 days after delivery to the FSD depot (although a few FSD's are now embarking on the ordering of selected products from specific suppliers one day ahead, for depot delivery the next day, and then immediate delivery to food service customers without warehousing);
- delivery temperature control – is essential for perishable food products along with, in most cases, a record of the environmental conditions during transport ... all of which is the responsibility of the supplier and its transportation provider;
- product order quantities – will vary depending on the FSD(s) you sell to and the products you are supplying ... but most FSD's will require both minimum delivery quantities, a commitment to regular delivery of these product volumes (e.g. every 2, 3 or 4 days) and many will want you to demonstrate your capability to increase delivery volumes if their marketing of your products turns out to be particularly successful; and
- product pricing – needs to be reasonable, competitive and reflective of the food service customer's 'willingness to pay', cognizant of the FSD 'mark-up' required and sufficient for the supplier to meet his or her financial expectations.

Some FSD's may require strict adherence to more stringent product and delivery requirements, depending on the company and the products involved. The above guidelines, however, will provide you some fundamental expectations of the food service distribution sector in advance of your direct discussions on the specific requirements of the companies you select to approach.

It is critical for you to discuss the expectations and requirements of each FSD directly with the appropriate buyer(s) to determine your willingness and capability to sell your products to this sector. Once established, selling arrangements with FSD's can be an ongoing, long-term, valuable relationship which could serve you well over many years.

REGULAR DELIVERY

All food service distributors require that their suppliers deliver products regularly and on-time. Since most FSD's have refrigerated and 'dry' storage capability, delivery by B.C. producers can be less frequent than that required by restaurants (e.g. perhaps, 2 to 3 times per week), as long as the 'delivery schedule' remains consistent.

Food service distributors rely on a consistent supply of product to provide their customers with consistent delivery of the products they require. This is fundamental to their business. It is, therefore, important for B.C. producers and processors (who want to supply the food service sector via FSD's) to be prepared to describe how and when their deliveries will arrive. Importantly, it is critical to 'follow-up' on these commitments.

MARKETING AND SALES SUPPORT

The larger FSD's (and some others) require that food product suppliers support their (hotel/restaurant) marketing and sales initiatives. B.C. producers and processors should be prepared for this requirement. Marketing support is, mainly, applicable to the larger food service distributors, but is also required (to a lesser degree) by some smaller FSD's.

This may be an important consideration for some British Columbia producers and processors. It indicates, in some cases, that your involvement with food service distributors will be an 'ongoing commitment' beyond product delivery.

Some food service distributors have annual (or semi-annual) functions ('food display/buying shows') where they invite both their customers and their suppliers to 'interact', meet each other and for buyers to see and sample the food products available. These events are important to B.C. producers and suppliers. Your participation is encouraged, and often required, if you have an established supply 'link' with the FSD's.

Some food service distributors require that food product and other suppliers meet regularly with their sales representatives. FSD 'sales representatives' are those individuals which meet on an ongoing basis with hotel, restaurant and institutional buyers. Regardless of the requirements in place, this is

an important, ongoing responsibility for you to optimize your sales and relationship with your selected FSD(s).

The interest of FSD sales representatives in promoting your product is fundamental to your sales success (via FSD's). Providing 'food samples' regularly to FSD sales representatives is important, so that they know and appreciate the quality and value of your product. It is very important for you to recognize that most (if not all) FSD sales representatives are paid (primarily) on commission. The sales support that you can provide may directly impact their interest and ability to sell your products and, thereby, achieve your own marketing and sales objectives.

Ultimately, as a producer or processor, you need to realize that some ongoing marketing support of your product is required if you select to sell to some food service distributors. This will need to be 'played' against your objectives, alternate markets and investment considerations.

The larger food service distributors suggest that upwards on 1% to 3% of the (achieved) product price needs to be allocated to supportive marketing and sales efforts.

4.3 Food Service Distributor Pricing and Financial Commitments

Food service distributors generate their net revenue, primarily, from 'marking up' the price they pay for products when they sell the products to food service customers (i.e. hotels, restaurants, and institutions). You, as a supplier, can therefore expect to receive a lower price for your products than if you sold them directly to the food service sector or, perhaps, elsewhere.

Despite this price discount, FSD's provide a valuable service for food producers and processors. Indeed, it is estimated that some 90% of food service supplies are purchased through food service distributors. This has become an extremely large industry, and it is expected to dominate the supply function within the food service sector in the future.

The distributors, through their extensive supplier network, assure food service customers of consistent and reliable delivery of the food (and other) products they require on a regular (daily) basis. Their business reputation is tied to their reliability and consistency of supply.

FSD's can and do access dozens or hundreds of hotels, restaurants and institutions, depending on their size and their network. They have an extensive sales force which deals with their food service customers on a regular basis. Most have dry and refrigerated warehousing located adjacent to principal food service market areas, and provide food product delivery (as required) to all of their customers using their own trucks (with the larger FSD's having a fleet of delivery vehicles). Many are also prepared to (and do) deliver on very short notice (i.e. several hours) when urgent requirements within the food service sector need to be accommodated.

SUPPLIER PRICE DISCOUNT

The 'mark-up' expected by food service distributors depends on the size of the company, the customers it serves and the products it carries. Some products command higher price 'mark-ups' than do others.

Generally, food product suppliers who sell to food service distributors in British Columbia can expect to realize a price for their products some 25% to 35% lower than what they may achieve if sold directly to food service establishments. While this is significant, you (as a supplier) need to evaluate the increased sales potential that FSD's may generate relative to your time and costs to sell directly to food service customers, your production capacity and your opportunities in other primary markets. This may, or may not be a market you want to pursue. It does, however, offer long term sales opportunities and arrangements for those producers and processors who can supply the product consistency, quality and volumes required.

MARKETING SUPPORT COMMITMENT AND COSTS TO SUPPLIERS

Some food service distributors, especially some of the larger ones, require that their food product suppliers commit to (and deliver) both time and resources to the ongoing marketing and sales process of their products. This can range upwards of 1% to 3% of supplier sales volume. It also includes, in some cases, the commitment by suppliers to support 'food shows' during the year where FSD's bring together their food service customers and their suppliers. These 'food shows' are only arranged by some FSD's and, in those cases, occur once annually for several days. For certain producers and processors, while your participation in these events is often compulsory, they represent an important opportunity to enhance product sales opportunities and to assess the capabilities and products of your competition.

THE COST OF SECURING A LISTING WITH FOOD SERVICE DISTRIBUTORS

The above paragraphs summarize the financial and other commitments which need to be made by specialty food producers and processors to establish on-going business and supply arrangements with food service distributors. It is difficult to quantify the direct and indirect costs involved, and these will vary amongst the FSD's and the suppliers involved. The key cost considerations which need to be addressed by existing and potential suppliers are as follows:



- net price realization (which will likely be lower than what might be achieved elsewhere);
- regular, ongoing supply arrangements which could optimize annual sales revenue;
- the time, effort and costs required to establish FSD supply agreements; and
- the time, effort and costs required to support the ongoing marketing and sales of some FSD's.

For some specialty food producers and processors, the rewards associated with ongoing business arrangements with food service distributors may be well worthwhile. For others, this market could be problematic from a time, effort and cost perspective. The actual costs can only be known, considered and negotiated once suppliers take the necessary steps to investigate and market to the food service market through FSD's.

4.4 Food Service Distributor Sales Process

Each food service distributor is somewhat unique in its approach to selecting suppliers. There are, however, some commonalities amongst British Columbia FSD's which are important for existing and prospective suppliers to appreciate. These are summarized below for your consideration.

The sales process must be initiated by you, the supplier. You cannot expect food service distributors to seek you out. Key, current contact coordinates and corporate profiles for a selected number of food service suppliers in British Columbia are included in Appendix B. This is not an exhaustive list of FSD's, and you are encouraged to seek out and communicate with other distributors which are both provincial and regional in the scope of services they provide.

**THE
SALES PROCESS
IS CRITICAL !**

Before you approach food service distributors, it is essential that you are prepared for their questions and requirements. This preparation will be generally 'in hand' if you have diligently and honestly undertaken the market research and prepared the "marketing plan" for FSD's and your other primary markets as described in Chapter 6 (below).

Remember, you will improve your selling opportunities to FSD's by recognizing (in advance) and responding directly to their primary requirements (as described in Section 4.2 of this chapter), especially the following:

- **Unique products and, especially, a variety of unique, high quality products**
- **Consistency of product quality and reliability of supply volume**
- **Pre-arranged liability and insurance arrangements for some FSD's**
- **Reliable & appropriate delivery arrangements and suitable packaging**

Many food service distributors have hundreds of suppliers and carry thousands of product lines. The smaller FSD's have a considerably smaller supplier network. Nevertheless, all distributors have many supply options. If you select to pursue this market, it will be in your best interests to prepare well, and to plan your approach carefully to address its primary concerns and requirements.

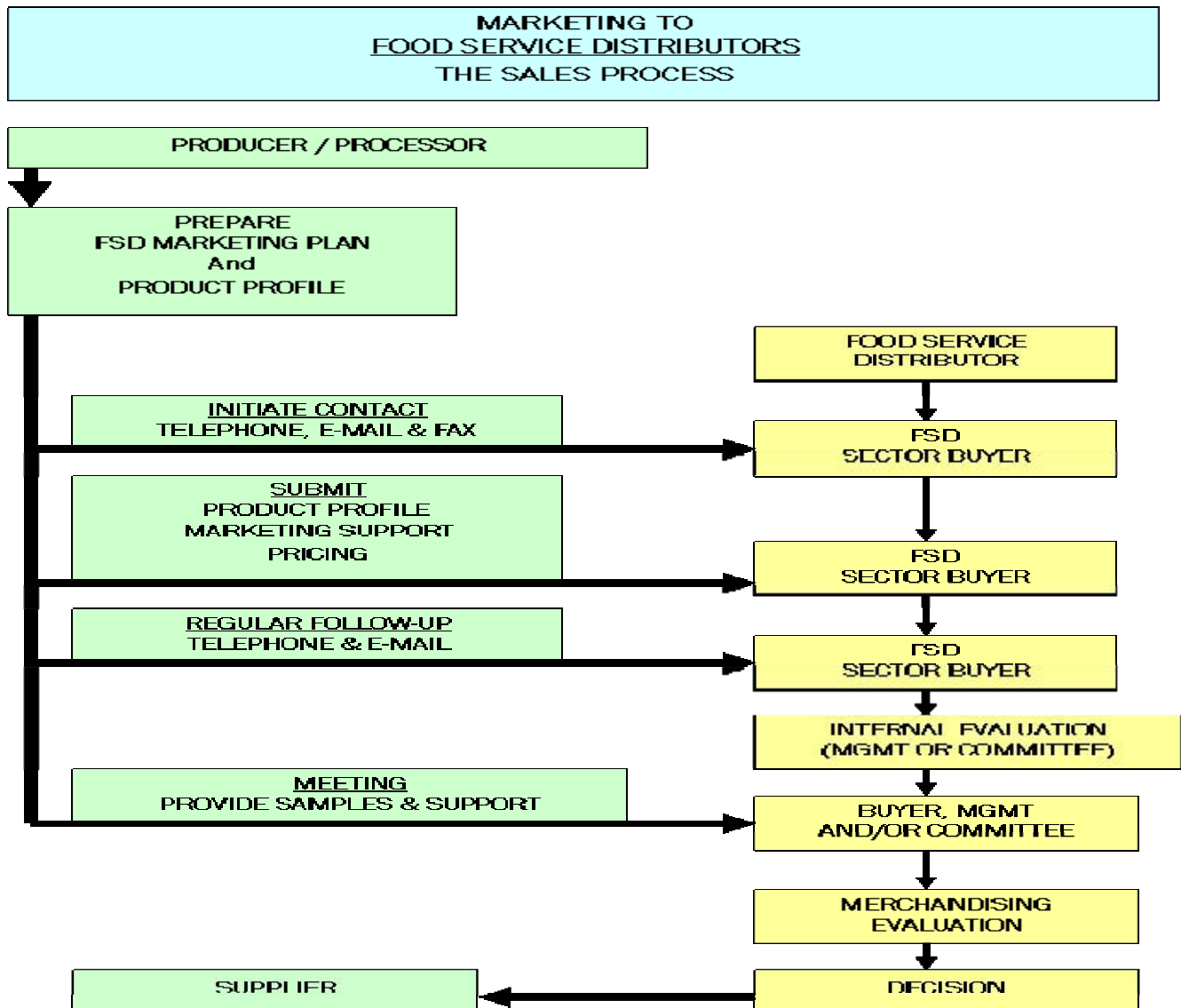
In all cases, purchasing decisions by food service distributors rest, primarily, with their senior food group buyers. The people you meet and communicate with, therefore, are likely to be those who make (or significantly influence) the final purchasing decision. For some of the larger FSD's, committees have been structured to decide on the suitability of new suppliers and their ability to 'merchandise' the food products involved. Nevertheless, the 'senior product category buyer' generally has an important influence on the decisions made by these committees.

The largest FSD food product suppliers (e.g. major producing enterprises in California) undergo more extensive scrutiny and evaluation by distributors. This usually involves decisions at management levels above the 'senior buyer' because of the volumes and business commitments involved. However, for small and medium-sized B.C. producers and processors, the guidelines outlined herein are generally applicable.

All FSD's in British Columbia have established head offices and/or regional offices in the province. The 'senior buyers' within these offices make product purchasing decisions for the large majority of (small and medium-sized) producers and processors who will take advantage of this manual.

Food service distributors, on the other hand, sell to both small (independent) and large (chain) food service businesses. The large, chain restaurant companies usually make purchasing decisions at their 'head office.' This, however, is not particularly relevant to B.C. producers and processors who must (primarily) consider their immediate customers in the food service industry (in the context of this manual) as FSD's and the buyers who make (or influence) the final purchasing decisions.

An overview of the general 'sales process' which you can expect to go through with most food service distributors is summarized in the sketch on the following page. The larger FSD's have a more extensive and vigorous purchasing process, and more strict supply requirements. All distributors, however, need to be "sold" by prospective food product suppliers. Once accomplished, and if commitments are effectively met, these supply arrangements could generate important sales benefits over the longer term for those who are successful.



FSD BUYERS NEED TO BE APPROACHED

As a producer or processor, your first step to successfully achieve sales to food service distributors is to approach their key (senior) buyers who are responsible for the food group which you hope to market. The smaller and specialty FSD's often have only one or two product buyers. The largest FSD's have many buyers, with each 'specializing' in and focusing on specific food and other product categories.



It is your responsibility to contact the food service distributors' offices and identify who their buyers are for your product group, to secure their co-ordinates and to follow-up effectively with these people. An initial (and current) listing of food product buyers for a selection of B.C. food service distributors is included in Appendix B. This should serve as your 'starting point' for your FSD sales initiatives, but should not be considered as a complete listing of distributors who you should contact.

You should identify and initiate contact with two or three appropriate FSD's initially and, if these initiatives are not successful, you should expand you sales targets to other food service distributors. The food service distribution sector is very competitive. It may take effective sales efforts to a number of FSD's before you are eventually successful. Your approach should be refined during this process, as you enhance your marketing techniques and learn more about food service distributor requirements.

- **Don't Get Discouraged
If Your Sales Efforts Are Not Successful Initially !**

As in any business, those responsible for buying products can and do change. It is important for you to have current information 'in hand' before you initiate your sales approach.

FSD product buyers are often grouped according to the product categories described earlier. Depending on the company you are approaching, food buying responsibilities may fall into one or more of the following categories:

- protein products (including seafood, meat and poultry);
- dairy products (including cheese);
- fresh produce and fruits;
- spices, oils and herbs;
- coffee and beverages; and
- grocery, frozen and miscellaneous food products.

PREPARATION TO SELL TO FSD's

It is essential for B.C. producers and processors who want to sell to food service distributors to be very well prepared prior to their sales efforts. This is best accomplished by reading and understanding this 'manual', and by diligently undertaking the market research and marketing plan development described in Chapter 6.

You need to do some additional research with respect to the individual FSD's you plan to approach, since the requirements for suppliers vary for each food distributor. Nevertheless, by being prepared to address any and all of the requirements described (above) in Section 4.2, you will be served well during your sales efforts. The largest FSD's have the most stringent requirements. But preparing to address all requirements, from any distributor, will enhance your opportunities for success with whichever of these companies you choose to approach.

- **Please ... Be Prepared !**

Selling to FSD's is a process. It is not sufficient (or appropriate) to 'fill out a form' and 'wait to hear'. In fact, the process is much more personal. You will need to contact (and relate with) key purchasing decision makers, and to convince them that your products are saleable and worthy of their keen consideration. These are, after all, ordinary people who relate regularly with many suppliers, both small and large. They are, indeed, most interested in high quality and unique food products which can be sold by their company. In most cases, their sales staff are remunerated based on sales commissions. This is their motivation in a very competitive industry environment. You will need to understand their motivations, and sell your products accordingly. But, you also have many FSD options to choose from if one or more do not 'work out' initially.

- **Don't Be Intimidated !**

SALES PROCESS INITIATION AND FOLLOW-UP

It is your responsibility to initiate contact with your selected food service distributors. It is also your responsibility to use your preparation to establish a good rapport up-front. Have a communications plan in place, and follow through on it. Be professional, and impress your potential customers with your abilities, dedication and experience. This is a one to two month process, with communications required weekly, which could lead to many years of a successful business relationship.

- **Please ... Dedicate a Few Months of Time to the Sales Process !**
- **Be Aggressive and Professional ... and Follow Through !**

This sales process is likely to be the only chance you have to 'sell' to each FSD for the next year or so. Food service distributors do not stipulate how often you may 'resubmit' your supply prospects, but it is likely that **your first chance is your best chance.** Take it seriously and conduct it professionally in a prepared manner.

Whether requested or not, it will be to your advantage to forward a summary of your product attributes, your pricing expectations, your supply capability and various aspects of your "marketing plan" which will appeal to the FSD you are approaching. This should be professional in nature, and include photographs as well as delivery and packaging arrangements that you have in place or planned. This pro-active sales effort will enhance your chances of success by raising you above the many other suppliers the FSD's have to choose from. An example of a (short) product and business profile submission you may consider is attached in Appendix C. This concept is for 'idea' purposes only, and has not been suggested in any way by any of the FSD's contacted.

- **Submit a Short, Professional Summary ... Without Being Asked To Do So !**

You will probably need to approach several FSD's, but these should be distributors who you think can meet your needs and objectives. Prepare a list, and approach a couple initially, and use the others to approach if your initial sales initiatives are not successful. You should be prepared to be rejected by some, but there are many food service distributors to choose from. You should approach several that

are suitable to you, with a view to arranging successful selling arrangements with one. Most will require 'exclusive' selling arrangements with you.

SALES OPPORTUNITY MEETING WITH THE FSD

You should personally meet with the appropriate product group buyer for each of the FSD's you contact. Arranging this meeting is your first challenge. Be prepared when you make contact, and be flexible with your meeting timing. Be prepared to meet the buyer at his or her office.

Your meeting with the prospective buyer(s) must be considered by you as your most important sales opportunity with each FSD. You need to be prepared, and to understand the business environment of the FSD. You will need to establish your own 'talking points' based on the guidelines presented in this manual. However, for your consideration, your agenda may incorporate the following:

**• Your Meeting With each FSD Buyer
is Your Most Important Sales Opportunity !**

- your business profile, including a food product inventory (and, particularly, any previous food service sales if applicable);
- a 'highlight' of the (unique and variety of) products you feel are directly relevant to the food service sector;
- provide a pre-prepared, written summary of your business and your products (along the guidelines suggested in Appendix C);
- provide product samples (if appropriate);
- emphasize your product quality, uniqueness and marketing commitment (present your plan) with respect to the FSD and it's market focus, objectives and requirements;
- ask about, and discuss, FSD product supply and delivery requirements ... and, address, as appropriate, your willingness and capability to meet these requirements;
- ask about, and discuss, FSD insurance, liability, payment and other 'administrative' requirements and issues of concern and importance to both of you;
- establish (in your mind) interest (on the part of the FSD), or the lack thereof;
- if there is FSD interest, discuss and establish a plan whereby each of you will follow through with specific actions over a short time frame (i.e. several weeks or a month) and, importantly, follow through with your responsibilities as part of this plan.

You may be, or may not be, successful with your initial sales initiatives to individual food service distributors. If you do not succeed at first, please try again with other FSD's since different distributors have different requirements, needs and expectations. If your products are saleable within the food service sector, there is likely a business arrangement 'out there' that will work for you and the distributor.

- **If You Are Not Successful at First ... Try Again With Another FSD !**

If and when you have been declined by one FSD, it is very important for your business to understand why, and even more important to move forward, with this understanding, to other food service distributor opportunities. Your increasing knowledge of the marketing approach required, and the requirements of FSD's, will help you to achieve sales as you pursue this market. Indeed, you may determine that food service sales are not suited to your company's objectives and business model.

Regardless, if you have been declined by a food service distributor, it is likely that 'revisiting' that particular customer may be ineffective, unless several months or a year has passed, or unless there are specific product, supply and/or delivery adjustments that you have made (which directly address the concerns of the FSD). In the latter case, you should 're-activate' your sales initiatives accordingly. Food service distributors do not establish timelines for marketing efforts by suppliers. It is expected, however, that 're-approaching' a particular FSD one year after an unsuccessful effort is reasonable, unless important supply or product adjustments have been made in advance of this time frame.

INVOICING AND PAYMENT

The research (of both food service distributors and suppliers) indicates that there is a wide variance in terms of invoicing and payments for products delivered to FSD's. You should check the internal policies and reputation of any food service distributor with whom you plan to conclude sales arrangements in this regard. Ask for references, and contact those suppliers to understand the actual payment arrangements that you can expect.

- **Invoice On Delivery – Expect Payment Within 30 Days**

Nevertheless, you should invoice immediately upon delivery of your products. Most FSD's will agree to pay their suppliers within 30 days of product delivery. Some will pay immediately on delivery for specific (ordered) products. All will deduct 'unacceptable' products from their payments to suppliers. Their reputation, in part, relies on their professionalism and the timely payment of their suppliers, as per the arrangements they have made with you. You can generally expect payment, from most FSD's, within 20 to 30 days, with some paying earlier and some paying later.

These are business arrangements which you will need to establish and be comfortable with. Most food service distributors are well established and have been 'in business' for many years.

4.5 Follow-Up Once Sales Arrangements Are Established

It is critically important to deliver on your commitments with food service distributors and to follow-up regularly to ensure that your new customer's needs are being met. This assumes, that you want to continue your ongoing relationship with FSD's to which you have successfully made

- **Initial Sales Will Be a Challenge !**
- **Ongoing Promotion With FSD's is Easy & Important !**

selling arrangements. It is somewhat difficult to 'get in the door', and once you become an 'accepted' supplier, it is important that you spend the time necessary, and that you follow through with the commitments you have made, to ensure the longevity of your new business arrangements.

Food service distributors are not like other customers you may be selling to. Based on their business models, they require ongoing commitment, quality and participation. If you are not prepared to follow through with your supply arrangements, you should probably be focusing on other markets.

If you can come to an acceptable agreement, however, FSD's can provide you with longer term sales and, therefore, some revenue stability.

It will be in your best interests, once initial sales have been secured, to ensure the following:

- your product quality, supply and delivery commitments are met or exceeded;
- you communicate regularly (probably monthly) with the key buyer and sales representative (for your products) from your FSD's;
- you address, immediately and as required, any product supply issues associated with your FSD customer(s);
- you participate (willingly and positively) in your FSD's marketing initiatives; and
- you promote to your FSD(s), as appropriate, any new product lines and/or production capability increases that are suited to this market and that you are confident you can deliver.

5.0 INITIAL STRATEGIC THINKING YOU SHOULD CONSIDER

There are a number of factors that need to be considered as a food producer or processor evaluates his or her market opportunities. Provided in this chapter is a strategic process you, as a B.C. supplier, should consider if you are contemplating selling to food service distributors in British Columbia.

**SHOULD YOU
CONSIDER
FSD's ?**

This 'strategic thinking' can be carried out relatively easily, and will provide you with some direction as to whether or not you should consider pursuing the food service distributor market.

5.1 Your Primary Markets and Net Revenue

It is important for you, as a small or medium-sized business owner-operator, to think through what your markets are right now, who your colleagues and competitors are selling to and what you want to achieve from new marketing and sales efforts!

The following are some key questions:

- **Do you want to increase sales, or achieve higher prices for your products, or both ?**

- **Are you willing to accept a lower price for the increased exposure and sales that can be provided by a food service distributor ?**

- **Are you willing to support marketing and sales efforts by a food service distributor ?**

- **Can you deliver your product, to the food service distributor, in reasonable volume, regularly, on time with consistent quality ?**

- **Are you prepared to sign legal liability agreements and purchase insurance which is required by a few food service distributors ?**

Based on your answers to these questions, you should do an overview assessment of the attractiveness of sales to food service distributors for your business.

5.2 Your Food Product Uniqueness and Sales Potential to the Food Service Sector

Food service distributors in British Columbia carry hundreds, and often thousands, of products which they sell to hotels, restaurants and institutions throughout the province. It is necessary for B.C. producers and processors to compete directly in this well supplied market if you hope to achieve success.

With this said, there is interest and focus by many British Columbia food service distributors in purchasing products produced in the province. This is probably in response to the food service sector having an increased interest in presenting B.C. products on their menus. Nevertheless, a trend is evident that will likely lead to increased sales of B.C. products in B.C. restaurants. This trend is not expected to substantially alter the food product sourcing patterns of provincial FSD's. However, it does provide an increasing opportunity for some British Columbia producers and processors to establish or increase supply arrangements within this market.

While the food service market in British Columbia is large and growing, it is still supplied primarily by suppliers outside of the province. To become 'listed' by provincial FSD's, food producers and processors need to have (and promote) some special attributes which appeal to the food service market. These attributes likely include food product superiority in terms of uniqueness, quality, taste, health factors, freshness and 'local' appeal amongst other advantages. So called "me too" products from British Columbia will have a difficult time entering the FSD market, given distributors' wide selection of, and reliance on, international suppliers within these categories.

To the extent that you, as a producer or processor, believe that your products are different (and offer consumer appeal), you should follow through with the guidelines outlined in this document to secure sales to food service distributors.

On the other hand, if your products are similar to many that are already sourced on a 'year round' basis from international suppliers, you may face significant challenges to 'penetrate' the food service distributor market and may wish to consider more rewarding market opportunities.

6.0 MARKET RESEARCH AND MARKETING PLAN

To effectively establish business relationships and sales with one or several food service distributors, British Columbia producers and processors need specific market information and must take well planned steps. Importantly, suppliers to the FSD sector must follow through consistently with the quality, delivery and marketing commitments they make.

This chapter of the 'Marketing Manual' provides B.C. suppliers with specific research and marketing planning steps required that will enhance your opportunity to sell successfully to the food service distributor sector. These actions are not onerous, but are important. By following them carefully, you will have a much better appreciation of your own capability to sell to this market and the short-term and medium-term potential of the market for your products.

6.1 Industry Overview and Market Research

For purposes of this 'manual', your primary or "target" market is considered to be the food service distributor sector in British Columbia. All steps and guidelines suggested assume that you, as a food producer or processor, want to take the necessary action to sell your products to this market sector. Indeed, however, you may have several "target markets", one of which is FSD's. In this case, your marketing initiatives towards the food service distribution sector should be only one of your sales planning initiatives.

MULTIPLE MARKET OPPORTUNITIES

It is important to note that you are likely to be selling your products to a variety of markets, and this diversity is usually a good business approach. These additional markets may, for example, include the following:

- sales to wholesalers and/or direct to retailers;
- retail sales to customers through your own store or via the 'farm gate';
- direct sales to the food service sector (e.g. hotels, restaurants etc.);
- sales to consumers through farmers' markets; and/or
- sales to food service distributors, wholesales, retailers and/or restaurants outside British Columbia (e.g. in Alberta).

The marketing guidelines provided in this document, with some variation, can also be used directly to plan and implement successful sales efforts to these other markets. All markets may provide some distinct business advantages for you depending on your products, geographic location, distribution capability and the competition you face in each.

B.C. FOOD SERVICE DISTRIBUTOR MARKET RESEARCH

One of the main purposes of this 'manual' is to provide British Columbia producers and processors with directly relevant information on the provincial food service distributor market. Effectively, research on the food service distributor market has been completed for you and is contained herein

INDUSTRY AND MARKET RESEARCH FOR YOUR PRODUCTS

This 'marketing and sales manual' was constructed to provide useful guidance to the wide variety of producers and processors which grow, raise, harvest, process and/or otherwise produce food products in British Columbia. Each type of product is unique and faces different industry issues and competitive challenges. It is important for you to understand your particular segment of the food industry relative to the opportunities and competition you face within the food service distributor market.

An industry overview needs to be prepared which addresses your particular food production group. Being 'in the business', it is likely that you will have much of this information already 'on file' or in your mind. It is important and useful for you to prepare an industry status summary for your food product groups. This will provide you with a fresh and current perspective of your business and the issues, challenges and opportunities it faces. Writing these down and discussing them with your colleagues and family is important. Included should be the following:

- the size of your industry segment regionally and provincially (production and revenues);
- the business and market issues being faced within your industry;
- pricing concerns and trends within your segment of the industry;
- production and technology issues and trends;
- product quality issues and trends;
- distribution and delivery challenges and opportunities; and
- the market potential for your product group both regionally and provincially.

There are a variety of sources of information available for many food product categories which you may wish to access. These include Statistics Canada, B.C. Stats, the Federal Department of International Trade, studies undertaken by the B.C. Ministry of Agriculture and Lands and research papers and studies carried out by industry organizations and associations provincially, elsewhere in Canada and in the United States.

Key product groups within your segment of the food industry need to be listed and summarized. Many producers and processors have the ability to adjust the products they produce, sometimes quite quickly (i.e. seasonally) and, other times, with considerable pre-planning and investment. It will serve you well to ‘think through’ your options and abilities in this area. Market requirements change regularly based on consumer tastes, trends and buying habits. It is important for you to understand both your current product mix and your abilities to adjust production type and levels in the future. Included should be the following:

- current product mix (e.g. products, product varieties, packaging sizes, volumes by category, average shipment size, market segment appeal and sales success for each, etc.); and
- potential product mix (e.g. product variation and flexibility, production volume expansion and costs, packaging size and format flexibility, shipment size variation, etc.).

Key market segments for both your business operation, and your industry segment in general, need to be researched and summarized. As mentioned above, much of the information you may require for the B.C. food service distributor market is contained in this ‘manual’. Nevertheless, for you to best appreciate the extent to which you wish to target the FSD market, it is important for you to undertake some similar research on your other market opportunities (e.g. other geographic areas, the retail market, direct sales to food service customers, sales via farmers’ markets and the ‘farm gate’, export markets, etc.) In particular, you should consider and summarize the following with respect to each and all of your market opportunities:

- product appeal, success in selling to-date, demand levels and volume expectations;
- how to adjust your product or product mix to better suit each market;
- industry segment sales for each market segment;
- your estimates and expectations regarding market share;
- net price achievement by product category;
- current product mix suitability and variation ideas;
- competition;
- delivery issues and costs;
- packaging issues and costs;
- marketing support requirements and costs;
- documentation needs and time requirements; and
- legal and insurance requirements and costs.

The sales process needs to be evaluated for each of your existing and potential markets. This will provide you with valuable information and insight into the time, effort and costs which will be required to market and deliver products in each case. It will also provide you with perspective on the

competition you can be expected to face. All of these factors will help you to appreciate 'net sales revenue' that can be anticipated and, thereby, provide direction for your marketing efforts and assist you in identifying the key markets you want to focus on.

The sales process for the B.C. food service distributor market is described earlier in Section 4.3 of this 'manual'. This needs to be carried out for each of your primary markets and should include the following:

- the type and frequency of effort that is required to sell to the market;
- ongoing marketing and sales efforts required;
- the costs required to successfully penetrate the market (including time, promotion, advertising, delivery, staffing, 'food show' participation, etc.);
- net pricing expected;
- ongoing networking, marketing and communications requirements;
- market contacts and coordinates for your sales efforts (e.g. customers, FSD's, wholesalers, retailers, brokers, etc.); and
- legal, insurance and other requirements that must be in place and their costs.

A description and understanding of your competition is also fundamental to an overall understanding of the industry, your markets and your ability to sell successfully. The competitive environment varies substantially amongst the many food groups.

This need not include exhaustive research, but you will be well served by identifying, listing and describing the key businesses and companies which you will be effectively competing with in selling to each principal market. Descriptive information should include what you can find out relatively easily (or already know) including the type of products and varieties, product strengths and weaknesses, production capacity and capability, targeted markets, packaging characteristics, distribution channels (e.g. brokers, wholesalers, FSD's, direct, etc.), delivery system characteristics and recent development amongst other factors. The actions and development trends of your direct competitors will help you in deciding which markets to target and what product or product mix to concentrate on for each market segment.

This research and thinking should include the following:

- regional and provincial participants (producers and processors) which are targeting and/or selling to the primary markets you are considering;
- provincial, national, United States and multi-national companies which are supplying similar products directly to each of your primary markets; and
- trends within your industry segment which will effect the development of the industry, the marketability of your competition and the competitive pressures you may face in the future.

The industry outlook and industry trends need to be identified and summarized (as an outcome of the preceding competitor research) so that you are clearly aware and familiar with those issues and developments directly affecting your food industry group. You are probably familiar with much of this information. It is important, nevertheless, to summarize it in writing and to discuss with your colleagues.

Industry trend information should be updated regularly (perhaps quarterly) so you remain current with factors and issues which could directly impact your marketing and business success. Industry awareness is particularly important to many food producers and processors. Changes are occurring regularly throughout the province, North America and worldwide. Many could impact your business and your business decisions including, perhaps, some of the following:

- consumer preferences are changing;
- production techniques are advancing;
- new and innovative technologies are emerging;
- land values are escalating;
- currency exchange rates are fluctuating;
- distribution systems are evolving;
- export market opportunities are growing;
- marketing methods are being adjusted;
- international competition is increasing; and
- corporate consolidation is occurring.

Within your food group, some of these trends and developments may be especially applicable. It is in your best interests, as a business person, to remain current on these matters and to make effective production, business and marketing decisions which will enhance your ability to prosper within a changing environment.

6.2 Marketing Plan and Strategy

Based on the research you have carried out, and that contained in this ‘manual’, you will have the tools necessary to establish a “marketing plan and strategy” which suits your purposes and is responsive to market conditions and opportunities. This needs to be a plan which you are happy with and which you are ready and able to follow and implement successfully. It will need to be adjusted based on your successes and challenges and, regardless, periodically to ensure that it remains current and consistent with the changing environment.

The principal elements of your “marketing plan and strategy’ are summarized in the following paragraphs.

TARGET MARKETS

Your “target markets” include those customers who you believe offer you the greatest potential for both sales volume and financial return. It is not unusual to have several ‘target markets’ which, when combined, account for the majority of your production volume and sales.

Your target markets need to be described from several points-of-view as follows:

- the specific customers who pay for your products (e.g. food service distributors, retailers, restaurants, wholesalers, brokers, the consumer/public, etc.);
- the geographic area of your customers (e.g. specific urban or regional areas and locations); and
- as appropriate, the venue used for achieving sales to your customers (e.g. your own and/or other retail stores, your ‘farm gate’, farmers’ markets, other food markets, etc.)

KEY COMPETITORS

Your “marketing plan and strategy” should list and describe your key competitors within each target market segment (i.e. for each customer group, each geographic area and each sales venue). This competition summary will enable you to focus on your strengths, the pricing of your product mix and the most effective sales methods within each target market segment (given your understanding of the competitors you face and their strengths, capabilities and weaknesses).

ANALYSIS OF YOUR COMPETITIVE POSITION

You need to include, in your “marketing plan and strategy”, your comparative competitive position relative to that of your primary competitors within each target market. This should incorporate your understanding of how your products and marketing practices compare with those of your competition. This assessment will enable you to appreciate your strengths and weaknesses relative to those of your competitors. It will also enable you to take the steps necessary to generate an advantage for your sales techniques and to position your products appropriately. It needs to reflect the current position of your business and that of your competitors. It also needs to address expected changes within the competitive environment over the next six to twelve months.

PRICING STRATEGY

Your pricing strategy for each of your products needs to be described for each of your target markets. Pricing is often different depending on the marketplace you are selling to and the competition you face. It is also key to the financial return you can expect to achieve from each market segment and in total for your business.

Prices should reflect both competitive pricing within the marketplace as well as your production, delivery and marketing costs. It is important to sell your product at competitive prices, but also to ensure that you receive a net contribution to your business once all direct costs are accounted for. Products of superior quality and appearance can be so positioned with higher prices as long as the necessary customer awareness has been effectively promoted and customer acceptance is anticipated.

PROMOTIONAL STRATEGY

Your promotional strategy will likely vary amongst your target market customers. Food products need to be seen and tasted. Providing product samples to many markets is essential for successful sales. This includes the food service distributor market, but also many other customers as well (e.g. restaurants, consumers, some retailers, etc.)

Promotion of unique production methods and the quality and health features your products may also be advantageous. This can be accomplished by issuing reports and/or brochures to potential customers.

Direct advertising may be required for certain types of 'direct-to-consumer' sales such as through private retail outlets, farmers' markets, other markets and/or 'farm gates'. Your participation in food shows and exhibits (or other trade shows) may be required by some food service distributor and wholesalers and advantageous with others.

Your "promotional strategy" needs to address your planned and compulsory initiatives in all of these areas amongst others. It will be important for you to address the costs of the planned promotional activity, and your time, and to incorporate these into both your pricing strategy and your financial planning.

PACKAGING AND DISTRIBUTION STRATEGY

Different markets and different products require different packaging and distribution (to customer) arrangements. Your ability to successfully sell your products to specific customers will depend, in part, on your recognition of, and willingness to adapt, product packaging and delivery. Your expectations in these areas need to be an integral part of your "marketing strategy and plan". Since most food suppliers need to deliver products to their customers, there are important costs associated with both packaging and delivery which need to be incorporated into your financial planning.

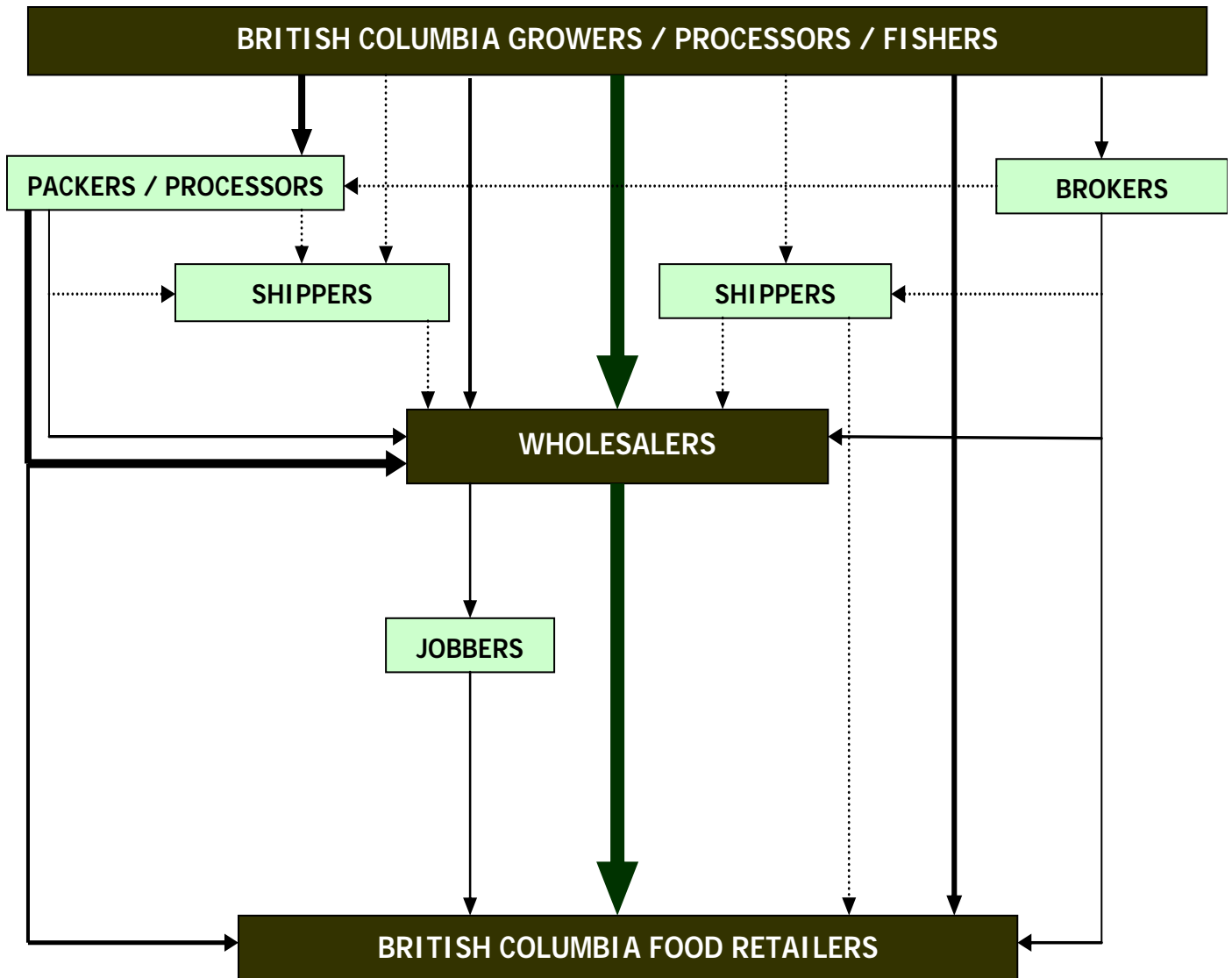
Product distribution costs to some customers may prove to be excessive if production volumes are low. In these cases, it may be appropriate for producers and processors to combine their transportation requirements in a co-operative way to achieve economies of scale. Other innovative solutions may be possible.

Product packaging is not only a sales tool, but is also reflective of customer requirements. Hotels and restaurants (and, therefore, FSD's), for example, often require different sizes for packaged products than do retail consumers. Order quantities also vary amongst the various food markets and customers.

Your 'marketing plan' needs to reflect the various requirements of the markets you wish to sell to. It, therefore, needs to describe how you will package your product for each market, your expected shipment volume and frequency per load and the methods whereby you will deliver your products to your customers' premises.

APPENDIX A
PRODUCER-TO-RETAILER SUPPLY CHAIN

BRITISH COLUMBIA PRODUCER-TO-RETAILER SUPPLY CHAIN



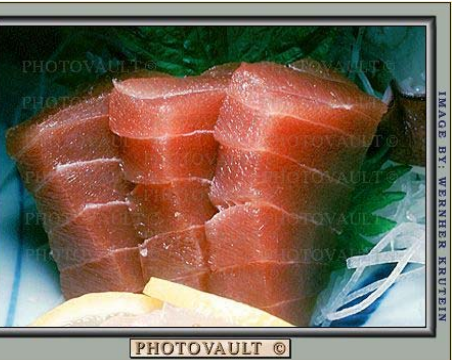
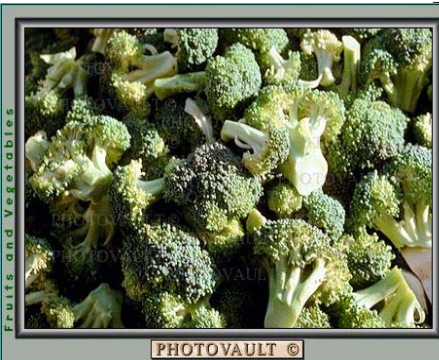
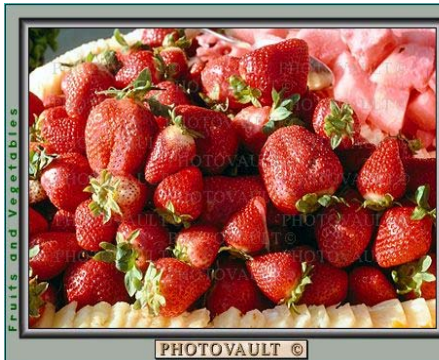
APPENDIX C
FOOD SERVICE DISTRIBUTOR – PRODUCER MARKETING SHEET

APPENDIX C
IDEAS FOR PRODUCER MARKETING SHEET FOR FSD's

SUPPLIER: XXX Company, 222 Producer Drive, BCProductville, B.C., V1V 1Y1
Contact: Mr. George Producer
Telephone: xxx-xxx-xxxx **E-Mail:** xxxxxx@xxxx.xxx **Facsimile:** xxx-xxx-xxxx

PRODUCTS: Specify (List) (Hopefully to include a variety of saleable products)

-
-
-
-



PRODUCT UNIQUENESS:

PRODUCT PRICING EXPECTATIONS:

SUPPLY VOLUME COMMITMENT:

PREVIOUS FOOD SERVICE SALES: (Describe – only if appropriate)

.....
.....
.....

DELIVERY PLANS & FREQUENCY:

.....
.....
.....

EXPECTED PACKAGING AND DELIVERY QUANTITY:

.....
.....
.....

FOOD SAFETY REQUIREMENTS COMPLIANCE (if appropriate):

.....

INSURANCE (if appropriate):

.....
.....

MARKETING SUPPORT (if appropriate):

.....
.....
.....
.....