# Marketpower

## THE STRUCTURE OF CATERING SUPPLY AND OPPORTUNITIES FOR MANUFACTURERS

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**Marketpower is a London-based information and market research services company specialising in two closely related areas: the catering market and food distribution. This paper is based on experience the company has gained in researching these markets since 1975.**

I would like to start off with some global numbers:

- 56.5 million men, women and children live in the UK

- We shop at 105,000 food shops and eat in 320,000 catering establishments ... a total of 425,000 places which sell food

- We spend about £40 billion a year on food in shops ... and a further £13 billion on food in catering establishments plus £3.5 billion on subsidised meals supplied at or below cost ... a total of about £57 billion a year.

This expenditure is actually made up of 2 components:

- Expenditure in shops
- Expenditure in catering outlets.

Both of these expenditure figures contain an element of mark-up and in the case of the catering sector, the mark-up can be very large often exceeding 100% to allow for foodservice overheads. In order to compare purchases from the two sources, I propose to start off by taking the value of retailers' and caterers' purchases from their suppliers.

I know that this is not the usual way of expressing the size of the market and these figures should not be confused with others which usually only include the retail market valued at retailers' selling prices. However, here we are comparing like with like though I have had to make some assumptions to get to this point.

Chart 1

| | |
|---|---|
| In 1990 ... | |
| . Retailers' Purchases | £32.8 bn |
| . Caterers' Purchases | £ 6.6 bn |
| TOTAL | £39.4 bn |
| . Direct Deliveries | £28.9 bn |
| . Indirect Deliveries | £10.5 bn |
| TOTAL | £39.4 bn |

Using these measures, what do we find? As Chart 1 indicates, the market for food in the UK was worth over £39 billion in 1990. Of this total, 83% or £32.8 billion was purchased by retailers, which, in this context, include not only grocers - whether multiples, Co-ops or independents - but also specialists such as butchers, fishmongers and greengrocers. Much of what these specialist retailers buy comes in as fresh products directly from farms, markets, specialist wholesalers, etc.

The catering sector accounts for the remaining 17% valued at £6.6 billion in 1990. Taking the Retailing and Catering sectors as a whole for the time being, we see that direct deliveries were valued at £28.9 billion while indirect supplies - whether from traditional delivered wholesalers or cash and carries - accounted for £10.5 billion. In other words 73.4% of the total was supplied directly from the food processor.

From this, it is correct to conclude that indirect distribution has a relatively minor role to play in the total context of food distribution.

However, that is not the end of the story because indirect distribution has a key input into two significant markets, the catering and independent grocery sectors. Later on, I will want to address these issues, but before doing that I would like to:

- Examine the way that food supply companies have structured themselves in order to maximise their sales to multiple retailers

- I will then examine how appropriate this structure is for supplying the catering market in particular

- Finally, I will try to identify how food companies are coping with the strains identified and the role of the intermediate distributor in the distribution chain.

But first, one or two comments about sources of information. The catering market and, in particular, the patterns of supply of food to caterers are poorly documented. Despite this, there is a large pool of knowledge and information about this business, which is held by individuals in catering organisations, distributors and food manufacturing companies. In addition, since 1979, Marketpower has concentrated much of its efforts on establishing a data base and thorough working knowledge of the complexities of the catering supply business.

The comments which I will be making are, therefore, based on Marketpower's experience, leavened with additional understanding gleaned from many individuals active in the market. This paper is not based on a particular study; but the research carried out since 1981 for Marketpower's Catering Industry Population File, now in its fifth edition, has provided an invaluable insight into the catering supply business.

My comments are therefore based on a continuous monitoring of published sources relating to the catering market together with the results of many thousands of structured and unstructured, including personal and telephone, interviews as well as group discussions with caterers and their suppliers.

So far as I am aware, no other study has come to the conclusions which are reached in this paper and, accordingly, I believe this is a useful input into the complex, day to day and long-term discussions which go on between all companies and organisations involved in supplying food to consumers away from their homes.

The Retail Perspective

I'd like to start with a simple model of how food manufacturers get their products to the point at which they are sold to the ultimate consumer. I want to start with the retail side of this model because it is the larger of the two, accounting as we have seen for about 83% of manufacturers' sales.

So, in discussing the supply of food to the catering market which is the objective of this paper, it is important to examine the ways in which food companies have structured themselves to cope with the retail market, for two reasons:

- Firstly, the retail market for food is larger than the equivalent catering market by a factor of five

- Second, the retail market is highly concentrated. Consequently, it requires an immense amount of marketing effort since the implications of not gaining sales with a small number of key accounts are serious.

In short, without a retail supply activity any food company with pretensions to being a major force cannot succeed.

Chart 2

UK Food Turnover: 1989

| Retailer | £M |
|---|---|
| J Sainsbury | 4,972 |
| Tesco | 4,718 |
| Gateway | 3,865 |
| Argyll/Safeway | 3,501 |
| Asda | 2,521 |
| Marks & Spencer | 1,778 |
| Morrisons | 603 |
| Wm Low | 304 |

Source: IGD

N.B: 1. Co-Op is excluded.
2. See text for additional comment and definitions.

Chart 2 shows the size of the eight largest food retailers in terms of their grocery sales for their financial years ending in 1989. These figures exclude overseas sales and sales through non-food outlets (such as Sainsbury's Homebase) but they include sales of non-food grocery items (such as disposable products, cleaning chemicals, pet foods and so on) sold in supermarkets (except in the case of Marks & Spencer where the figures only relate to food sales).

The total grocery turnover of these companies amounted to £22.3 billion in 1989. It is misleading however to draw very specific conclusions about their combined share of the food market because of the inclusion of non-food products. Nevertheless, I estimate that the eight largest retailers between them controlled about 60% of the food market. If unbranded, fresh foods are excluded this figure rises to 78% of the packaged foods market.

Two conclusions, relating to size and concentration in the retail sector, are apparent from this:

- Firstly, whilst it is difficult to be both precise and concise, the figures indicate that the very largest retailers had an annual food turnover in the range £1.5 - £4.5 billion in 1989 ... currently the figures are between £2 and £6 billion

- Secondly, the largest retailers have about two thirds of the total food market and almost 80% of the market for packaged foods.

At this point it is appropriate to take a look at the rest of the grocery market which by definition excludes the major multiples. It does, however, include:

- Grocers, which I have defined as shops selling a wide range of predominately packaged foods but also fresh foods, drinks and non-foods. This means that Convenience Stores, amongst others, fall under this definition. For simplicity I also include Petrol Station Forecourts under this heading

- Provisions retailers such as Butchers, Greengrocers, Fishmongers, Bakers

- Variety and Department Stores whose main income is not derived from food

- Other, smallish outlets, such as CTN's, whose main income is not derived from food.

Chart 3

Retail Food Market: 1990

| | | Food Purchases | |
|---|---|---|---|
| | Outlets | £bn | % |
| Independents | 39,250 | | |
| Co-ops | 2,880 | | |
| Multiples | 4,250 | | |
| Sub-Total: Grocers | 46,380 | 25.1 | 76.5 |
| Provisions Retailers | 53,500 | 6.0 | 18.3 |
| Variety/Department Stores | 4,500 | 0.9 | 2.8 |
| Others | 44,000 | 0.8 | 2.4 |
| TOTAL | 148,830 | 32.8 | 100.0 |

Sources: IGD; Verdict; BSO; Marketpower

Using these definitions, there is a total of just under 149,000 outlets in the UK which retail food.

The non-grocery sectors between them operate about 102,000 outlets and purchase 24% of total food purchases made by retailers in 1990 but less than 3% of packaged food purchases.

In the grocery sector on the other hand, the 47,000 or so outlets purchased a total of £23 billion worth of food in 1990 of which £5 billion was purchased by Co-ops and independents.

Chart 3 shows that, in broad terms, the independent grocery market is structured in this way:

- A total of 39,250 Independents including over 4,200 C-Stores under brands such as Eight-til-Late, Late Stop and Londis

- Out of the total 2,880 Co-ops, approximately 600 operate as C-Stores with regional names such as Stop and Shop, Late Shop and even Late Late Supershop

There are 450 specialist Convenience Stores operated by the likes of M&W and 7-Eleven

Some CTN's, notably Star News, Dillons, One Stop and Forbouys operate a total of 430 C-Stores

Finally, there are 1,100 Petrol Station C-Stores operated under franchise from Texaco, Shell and other oil companies.

In total the independent grocery sector consists of a shade over 43,000 outlets of which nearly 7,000 are the newly developing Convenience Stores concept.

Average food purchases per outlet in 1990 were:

| | |
|---|---|
| - Independents | £110,000 |
| - Co-ops | £1.1 million |
| - Multiples | £5.6 million |

This puts the independent grocery sector into some perspective and helps to demonstrate the important and growing influence of the multiple retailer.

It also helps to recall that Independent retailers comprise 83% of outlets but only account for 12% of sales.

In addition, over the past 40 years there have been significant changes in the structure of the independent sector; this accounted for almost 60% of the grocery market in 1950 and even 24% as recently as 1980. Its share has halved in the decade since then. This means that today, the multiples control about 90% of the retail food market.

In their efforts to achieve their important position, the multiples have developed other characteristics as well as their sheer size. Chief amongst these characteristics are:

1. Concentration of Buying Power. In each organisation, a single individual or a small team, has the responsibility to select, or de-select, each product stocked.

2. Centralisation of Distribution. Each major retailer requires deliveries, at least of packaged groceries with a shelf life of more than a few days, to a small number of central warehouses from where the retailer organises deliveries to its own outlets.

3. Market and Brand Share Requirements. Because of their need to maximise profits per unit of store area, retailers have embarked on a search for new lines (such as fresh foods) whose turnover and profitability could possibly exceed those currently achieved. Whilst this process of range extension has been carried out in conjunction with new store openings, there is nevertheless continuous pressure on existing shelf space. This means that retailers have to guard against unnecessary brand proliferation by adopting restrictive stocking policies. These policies are frequently expressed in terms of stocking an own label product plus the two or three leading brands in each product line.

4. Above and Below the Line Promotional Requirements. Retailers are in a position to demand that their suppliers support their brands with heavy advertising expenditure. Retailers also recognise their highly developed buying power, and their consequent importance to food companies, by demanding ever keener prices.

5. Own Label. Food retailers vary in their own label policy but all now recognise the need for own label products which account for between 10% and 100% of the sales of major retailers.

6. Growth. Total food sales are static since the population is not increasing to any significant extent. This means that retailers are constantly seeking to develop new markets and to gain business by aggressive new store opening policies.

The Reaction of Food Suppliers

Food supply companies who in total rely on multiple retailers for about three quarters of their sales have had to react to these varying demands from retailers. It has been difficult for them to make the adjustment from the position in the 1950's when food shortages and the relatively large size of food companies, compared with their retail accounts, conspired to put power in the hands of suppliers. By the 1980's this situation had been substantially reversed.

Chart 4

UK Food Turnover: 1989

| Supplier | £M |
|---|---|
| Hillsdown | 2,085 |
| Unilever | 1,723 |
| Unigate | 1,535 |
| Nestle | 1,500 |
| UB | 1,358 |
| ABF | 1,314 |
| RHM | 1,313 |
| Mars | 1,115 |
| Cadbury Schweppes | 1,050 |
| Northern Foods | 1,037 |

Source: Henderson Crosthwaite/Marketing

Whilst food companies tend to be smaller, in turnover terms, than their retail customers they are still significant businesses. Chart 4 gives UK food turnover figures for the ten largest food companies in 1989. On first examination these food suppliers appear to be only half the size of retailers; however in many cases, the UK business is only a proportion of total corporate turnover. Total worldwide food turnover of Nestle was over £14 billion in 1989 and for Unilever the figure was more than £8 billion. On this basis, food suppliers appear larger than retailers; however to offset this, we have to recognised that food suppliers typically operate in separate, largely autonomous, divisions. Whilst it is difficult to draw specific conclusions, the main inference is that food suppliers have reached a size comparable to that of their retailer customers.

This position of comparative size has been a rational response to the growing buying power of retailers. But food suppliers have also taken action to structure their activities in response to the six factors which they face and which I outlined before:

1. Concentration of Buying Power. Food supply companies have developed the important role of National/Key Accounts in which a small number of senior individuals, backed up by specialist teams, have responsibility for selling to a small number of buyers in retailing groups.

2. Centralisation of Distribution. Food suppliers have invested heavily (or made major leasing commitments) in large scale transport facilities, typically in vehicles of 17 tonnes and upwards.

3. Market Brand Share Requirements. Major investments are made in new product developments, in an attempt to identify and exploit products which are unique in terms of branding, technical sophistication or other features. Such "unique" products are devised in an attempt to insulate the supplier from its competition. Whilst this approach is successful in many cases, there are many more instances where food suppliers have been unable to differentiate their products in any meaningful way from those of their competitors. In these circumstances, suppliers are forced to consider heavy spending as the main way in which to promote the product or brand.

4. Above and Below the Line Promotional Activity. In addition to their own wish to do so, food suppliers are also required by retailers to spend heavily to meet the retailers' requirements. The net result is that the suppliers' margins are squeezed even more fiercely.

5. Own Label. Despite their efforts not to, many food companies are forced to consider supplying own label products which, in the end, result in even lower margins for the supplier.

6. Growth. In a static market, food suppliers gain increases in sales by adopting a variety of strategies. These include adding value, stealing market share and acquiring the competition.

The net results of all these issues are:

- The largest food companies have achieved turnover levels of over £1 billion.
- They are geared to servicing large accounts and have developed lean, high-powered teams to do so.
- They invest heavily in branding and other promotional activities
- Their margins are narrow.
- Their growth opportunities are difficult to identify and exploit.
- Their room for manoeuvre is heavily compromised by the buying power of the major retailers.

In these circumstances, food suppliers need to find ways of improving their margins and identify markets where there is greater opportunity to use their strengths of size, key account specialists and heavy branding.

The catering market is one sector which appears to meet these specifications and the independent grocery sector is another. Food manufacturers have reacted in fairly similar ways to the needs and opportunities of operators in both of those sectors because both are:

- Fragmented
- Dominated by independent operators
- Require small but frequent deliveries to a large number of difficult to reach outlets.

Accordingly, I would like to take the catering market as providing an insight into both of these markets because it is the larger of the two, and ask:

> How appropriate is the catering market for food manufacturers? How appropriate are the corporate structures of food supply companies for the catering market?

<u>The Catering Perspective</u>

Whilst the catering market for food represents a £ multi-billion opportunity, it is still small compared with the retail sector. The combined food sales of the two largest retailers exceed, by a comfortable margin, total food purchases of the catering market, valued in 1989 at £5.8 billion ... and in 1990 at £6.6 billion.

The total value of food sales to the public by all caterers including profit sector caterers as well as canteens, schools and other institutions was £14 billion in 1989. This is less than a third of the value of retail sales despite the much higher mark-ups, applied by caterers, to pay for their higher overheads per unit of sale.

<u>Chart 5</u>

| | 1981 | 1989 |
|---|---|---|
| Retail Sales: | £33.7 bn | £32.9 bn |
| Caterers' Purchases: | £ 4.7 bn | £ 5.8 bn |
| Caterers' Purchases as % of Total: | 12.3% | 15.0% |

Source: Marketpower

N.B: These figures exclude confectionery, snacks, alcoholic and soft drinks.

The first conclusion to draw is that the catering market is small in comparison with the retail market and Chart 5 provides a summary of the situation.

Secondly, unlike the multiple retail sector, the catering market is highly fragmented and complex, comprising many sectors and sub-sectors. Marketpower report on 10 sectors and over 80 sub-sectors; Chart 5 gives an indication of the degree of fragmentation in the catering market in terms of numbers of outlets, meals served and value of food purchases.

Chart 6

| | No. of Outlets (Mid 1989) | M Meals 1989 | Food Purchases £M 1989 |
|---|---|---|---|
| Hotels | 57,690 | 455 | 765 |
| Restaurants | 13,550 | 322 | 653 |
| Pubs | 71,320 | 1,285 | 2,464 |
| Fast Food | 2,110 | 650 | 165 |
| Travel | 1,070 | 307 | 150 |
| Cafes/Take Aways | 34,430 | 1,465 | 517 |
| Leisure/Entertainment | 51,580 | 733 | 247 |
| PROFIT | 231,750 | 5,217 | 4,961 |
| Canteens | 23,000 | 1,489 | 330 |
| Health | 11,130 | 384 | 131 |
| Education/Services | 38,480 | 1,114 | 394 |
| COST | 72,610 | 2,987 | 855 |
| TOTAL | 304,360 | 8,204 | 5,816 |

Source: Catering Industry Population File - Edition 4; Marketpower.

N.B:
1. Northern Ireland is excluded.
2. Purchases are expressed at caterers' buying prices.
3. Food purchases include dry beverages but exclude alcoholic and soft drinks.

The major points to note from this table are:

- The small size of even the largest sector, compared with the retail market
- The large numbers of outlets - more than 300,000 - compared with less than 100,000 food retail outlets of which no more than 3,000 are owned by the largest multiple groups.

Clearly then, any food supplier approaching the catering market needs to recognise these fundamental differences. These are highlighted further when comparison is made between the size of food suppliers (as shown in Chart 4) and the size of the larger caterers.

It is difficult to identify the catering food turnover of most catering organisations, since the published figures are often subsumed in non-catering activities; even if the catering turnover is identifiable, the proportion of food (as opposed to alcohol, especially in the case of brewery groups, or hospitality services in hotel groups) is very difficult to identify. However, by way of example, the hotel and catering turnover of The Rank Organisation (which includes Butlins, Rank Motorway Services, Rank Hotels and others) amounted to £116.2 million in 1988; in the same year, the turnover of Bellhaven Breweries (including Deep Pan Pizza, Garfunkels and others) was £63.3 million. Or to put this another way, the NHS which is the largest purchaser of food in the catering sector, spends about £200 million on food each year.

This demonstrates an imbalance between food companies, many of which have a turnover of £1 billion or more, and most caterers whose turnover is one tenth of this amount at best.

So how do the structures developed by food supply companies attend to the specific requirements of the catering market? I'd like to take each point in turn:

1. <u>Concentration of Buying Power</u>. As I noted before, food supply companies have responded to the centralised buying of retailers by establishing national accounts teams. Whilst this is a possibly successful approach for the catering market, the size of even the largest catering groups is such that they represent a much smaller opportunity for food supply companies and therefore, potentially, a less efficient use of the national accounts resource. However, this must be offset against the fact that although they are small in retail terms, individual catering groups represent £ multi-million potential customers and therefore need to be attended to with care.

2. <u>Centralisation of Distribution</u>. The large lorries which retail supply companies use to deliver to central retailer warehouses are totally inappropriate to supplying caterers. With few exception, most notably McDonalds and to some extent Forte, caterers do not have central delivery points, instead they require small drops to a large number of sites which are often difficult to access.

3. <u>Market and Brand Share Requirements</u>. The brands which food suppliers have invested in over the years stand them in good stead when promoting to the caterer. Caterers are, after all, just like the rest of us and they will accordingly pick up the appropriate message for well-known brands or products. However, whilst there is probably a very strong spin-off of retail brand values in the catering sectors, it is not at all certain that the products themselves are appropriate for the catering market. Success is not merely achieved by repacking a retail product into a larger package; other factors need to be brought into the equation. Although this is an important topic, it is not germane to this presentation and so I would merely like to give one or two instances, such as caterers' preferences for dehydrated rather than canned soup which is the reverse of the retail pattern. Another example is the need for bland sauce bases to which the caterer can add his own 'signature' - a market which is undeveloped in the retail sector.

4. <u>Above and Below the Line Promotional Activities</u>. Turning to the level of promotional activity, it is clear that the mass media coverage used to influence the retail customer is inappropriate for products being promoted specifically to the caterer. This is because there is no mass medium for reaching caterers - the widest circulation magazines can only reach two thirds of catering outlets and in many cases, they do not reach the real decision makers. Television and radio are, no doubt, viewed and listened to by all caterers but the cost of promoting specifically to caterers via these media are prohibitive.

5. <u>Own Label</u>. The question of own label assumes a different perspective in the catering market when compared with the retail sector. Caterers do not need products which are labelled as being unique to a particular chain but they frequently want their suppliers to develop a bespoke product, perhaps with unique taste or functional characteristics. These products are, almost by definition, short-run products and therefore expensive to produce. This simplifies a complex situation, worthy of consideration in its own right, in which caterers do in fact use brand names at the point of consumption. Products which are often branded in this way include soft drinks, coffee, breakfast cereals, yoghurt, sauces and dressings and individual portions.

6. <u>Growth</u>. Unlike the retail market, the catering business is growing. Although the market was static, when measured in the value of food sales to caterers, over the period 1981 to 1986, since then the market has grown by almost £1 billion, from £4.9 to £5.8 billion in 1989 at constant 1989 prices, a growth rate of +6% pa although it slowed down in 1990 and is heading for a decline of -3% in 1991. The reasons for this long term growth are complex, and the figures hide the fact that the profit sector has grown every year from 1981, whilst the cost sector declined up to 1985 thereby wiping out any gains made in the profit sector. However, since 1986, cost sector purchases have stayed steady whilst the profit sector continued to grow.

In addition to the necessary reactions by catering supply companies, a key consideration for food suppliers is the profitability of the catering supply business. We do not have any firm data, but discussions with many food companies indicate that their catering supply activities are more profitable than the retail sector by a factor of two, three or even more. The reasons for this are complex, but one of the most important is the accounting conventions adopted for allocating overheads. It is likely that catering products do not bear their full cost of new product development, promotional spending and similar factors. This is an area where facts are hard to come by and could benefit from some detailed research.

The overall considerations for a food company which supplies or wants to supply the caterers are:

- Firstly, the catering market is growing and is more profitable than retail supply

- Secondly, key accounts are fewer and smaller than in the retail sector and, in view of the imbalance in size between suppliers and caterers, food suppliers are in a position to use their size to their advantage.

However, despite these positive aspects, several negative considerations assume a crucial importance:

- The catering market is fragmented

- It demands individual selling ... and distribution ... to a large number of outlets placing small orders and requiring small deliveries

- There are fewer opportunities for food suppliers to use their highly developed branding and marketing skills for the development of catering sales.

In addition, there are three further considerations which influence the catering-supplier relationship which I have not mentioned so far.

First, caterers are, in the main, small scale operators who are often untrained or only possess partial catering skills. They demand a partnership, perhaps even a "caring" approach from their suppliers and often feel uncomfortable dealing with large food companies.

Secondly, a position in the catering division within many food companies, is or was until recently, seen as a poor career move, with the consequence that there is a rapid turnover of staff. This mitigates against the development of the necessary corporate understanding needed to market successfully to the caterer.

The third consideration ties together the first two and is expressed in the fact that marketing to the caterer tends to be most successful when suppliers adopt an entrepreneurial approach to market development, one in which "hunch" or "gut feel" play a significant role in success. This approach is found in many of the small, local suppliers who have developed successful niches in the catering market and who, by the by, have not attempted to sell to, or have found no success in, the retail market.

This entrepreneurial approach is often the antithesis of the heavily standardised marketing efforts developed by companies who have successfully penetrated the retail sector.

There are however a number of companies which have a major retail presence and which have developed a successful catering supply business. Perhaps most notable amongst these are companies such as Nestle, CPC Caterplan, McDougalls Catering Foods, General Foods (now part of Kraft General Foods) and Premier Brands. What unites these companies is the clear distinction they make between their retail and catering (or foodservice) activities expressed either in autonomous divisions or in the form of companies separate from the parent (as in the case of McDougalls Catering Foods and its RHM parent).

Other major companies would also claim to have separate catering divisions but in many cases, the divisions lack autonomy and suffer interference or domination by the larger retail division. There are also many instances where catering divisions have had short lives before being closed and the sales and marketing activities being transferred back to the retail sector from where they originally arose.

Another characteristic which unites these companies is that they are suppliers of "dry" goods; frozen food suppliers and chilled food companies (with some notable exceptions such as Brake Brothers, Ross Youngs and Dairy Crest) whilst having a catering activity are still struggling to find a settled and satisfactory way of supplying the foodservice sector.

The final significant characteristics of all these companies are their extensive ranges ... and the presence of a variety of well-known brands, normally heavily promoted to the retail sector and Chart 7 provides some insight into the structure of the product portfolios of some of the most successful catering supply companies.

Chart 7

**The Key Product Portfolio of Selected, Successful Catering Supply Companies**

| Company | Key Products | Key Brands |
|---|---|---|
| Nestle Foodservice | Coffee | Nescafe |
| | Whiteners | Carnation |
| | Soups; Sauces | Crosse & Blackwell |
| | Dried Soups; Sauces | Maggi |
| | Frozen Foods | Findus |
| | Spreads | Sun-Pat |
| CPC Caterplan | Desserts; Custard | Brown & Polson |
| | Dried Soups; Sauces | Knorr |
| | Portions; Preserves | Frank Cooper |
| | Oil | Mazola |
| | Italian Products | Napolina |
| McDougalls Catering Foods | Cake Mixes etc | McDougalls |
| | Coffee | Rombouts |
| | Fruit Juice | Just Juice |
| General Foods | Instant Coffee | Maxwell House |
| | Ground Coffee | Kenco |
| | Dessert Mixes | Birds |
| Premier Brands | Tea | Typhoo |
| | Whiteners | Cadbury |
| | Preserves | Chivers |
| | Canned Fruit & Vegetables | Hartleys |

Summarising all these strands:

- Food suppliers want to develop the catering market because it is growing and profitable

- They have a monolithic corporate infrastructure and ethos which militates against the individualistic requirements of caterers

- Despite some successes, in the main they find it difficult to use their skills - particularly in terms of promotion and branding - when selling to the caterer

- They are unable to deliver the small quantities required by caterers.

This describes a picture of some instability and it indicates the need for some lubricant to resolve the conflict between the requirements of caterers and the abilities of food suppliers to satisfy those requirements.

Before I can define this lubricant I would like to return to the retail sector which for a start, has to be split into two segments namely:

- Multiple retailers who account for a major proportion of all retail food sales

- Independent retailers who include symbol grocers (Spar, Today's, etc), Convenience Stores such as 7-Eleven, petrol station retailers including Shell, Texaco and Jet as well as truly independent grocers and CTN's.

But food manufacturers do not always sell and deliver directly to their customers. In fact, only about 62% of the output of food manufacturers is delivered direct to the ultimate point of sale:

At this point, the picture begins to get complicated but the first point to note is that food manufacturers deliver directly to all three sectors (Multiple Retailers, Independents and Caterers). However this requires some clarification since not all manufacturers deliver to all outlets in all three sectors. In practice:

- Manufacturers who sell to multiple retailers deliver direct to them. In other words multiple retailers only receive deliveries directly from their suppliers

- Small, regional or specialist manufacturers deliver direct to independent retailers and caterers

- But independent retailers receive deliveries from intermediate distributors.

So let us examine this indirect channel in a bit more detail. It consists of two elements:

- First, cash and carries which are, in essence, wholesaling supermarkets from which the independent retailer or caterer collects his purchases. The key players are Booker and Nurdin & Peacock.

  I would point out, in passing, that some cash and carry operators now offer to deliver to their larger customers but this is not yet widespread.

- The second indirect channel is via delivered wholesalers who include: Booker Fitch and Watson & Philip.

Finally, to add further complication, we ought to make reference to the direct channel which is currently undergoing change. The key development here is the growth of contract distributors, such as Exel Logistics; however these distributors with exceptions, it must be admitted, act as a conduit to ensure efficient, low cost distribution from manufacturer to retailer or caterer but do not have a selling or marketing function. Because of this, they are not relevant to the points I am making and I would like to ignore them ... not least because they complicate the position even further.

In effect food distribution splits into two:

- Distribution to the multiple retailer ... which is almost exclusively direct
- Distribution to independent retailers and caterers ... which incorporates direct, cash & carry and delivered wholesale distribution.

I have already discussed, at some length, the ways in which food manufacturers have reacted to the need for direct distribution to multiple retailers. I have also concluded that the structures necessary to satisfy this need are inappropriate for the catering market ... and, as it happens, the independent retailing market as well ... but I do not want to dwell on this.

Instead I want to examine the distribution of food to the caterer.

Wholesalers and cash and carry operators have been squeezed by the process of centralisation found in the retail sector, which I described at the start, and they are actively seeking a new role.

The wholesaling sector, especially the delivered wholesaler as opposed to the cash and carry, has found that during the last two decades its historical role of acting as the middleman between food supplier and retailer has diminished to a large degree. The delivered wholesaler has no meaningful role for the major retailer although wholesalers and cash and carries as we have seen, have substantial business in supplying the independent grocery trade as well as with outlets such as CTN's.

The skills which have been developed by wholesalers over the years are those which are required by the larger food manufacturer in its dealings with the much smaller caterer. These include:

- A personal selling approach
- The ability to provide small quantities of products.

Wholesalers, whether delivered trade or cash and carries, are also experienced in negotiating and generally dealing with food suppliers; consequently they perform a natural role in the difficult interface between caterer and food supplier. However, this natural role is not fully appreciated either by wholesalers or food suppliers who have not recognised that they have a convergence of interest in supplying the caterer. Unfortunately, intermediate distributors as a class, but with some notable exceptions:

- Tend to be smaller than food processors
- Tend to view their business as buying cheaply and selling as expensively as possible. This is essentially a traders' philosophy which takes no account of the possibility of adding value by skilful marketing.

Despite this, there are strong indications that the need for some form of symbosis is becoming apparent to those active in the catering supply chain.

For the Future

We have investigated a situation in which we have identified:

- A desire by food companies to develop their catering supply business

- Several structural problems mitigating against a successful realisation of these aspirations

- A genuine role for the wholesaler and cash and carry in lubricating the flow between supplier and caterer.

This situation has been reached with several difficulties unresolved between distributors and processors, but given the pressures on these parties to increase their turnover there should be a progression towards a joint marketing philosophy between the two sides.