

# FOOD SERVICE MANAGEMENT COMPANIES *in* NEW ENGLAND

PHASE 1 RESEARCH FINDINGS:  
BARRIERS & OPPORTUNITIES FOR  
LOCAL FOOD PROCUREMENT



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*five* FARM to INSTITUTION  
NEW ENGLAND

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## COMMENTS

FINE has made every effort to verify the accuracy of statements in this document, and we accept responsibility for any errors or omissions. If you have questions or comments on the report, please send them to [info@farmtoinstitution.org](mailto:info@farmtoinstitution.org).

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# INTRODUCTION

**Food service management companies (FSMCs) dictate the parameters of institutional food procurement for many hospitals, schools districts and colleges in New England and around the country.**



As the farm to institution movement matures, advocates have realized that they must better understand food service management companies in order to have a significant impact on institutional procurement of regionally produced and processed foods. The Farm to Institution New England (FINE) Contracted Food Service Action Project (CFSAP) aims to address the limited understanding of how FSMCs work by compiling regional and cross-sector information about the operational practices of the largest FSMCs in the region: Compass Group and Sodexo. For this project, researchers conducted over 40 interviews with food systems advocates and FSMC staff members.

This report is an outgrowth of that research. It provides an overview of FSMC operations, including descriptions of purchasing practices, the rebate system, how vendors become approved, and the importance of contracts. The focus of this report is on the role of FSMCs in purchasing local food products for their institutional clients. It provides a synopsis of the main barriers and opportunities to local procurement and provides two examples of promising initiatives, both spearheaded by Sodexo.



# FOOD SERVICE MANAGEMENT COMPANIES: SPHERE OF INFLUENCE

*Food service management companies are commercial enterprises or non-profit organizations that contract with institutions to provide food service management.*

Food service management companies provide their institutional clients with a wide array of services that may include any combination of the following: development of the menu; food procurement; negotiating food prices with suppliers and manufacturers; maintaining a well-functioning retail space; providing capital for infrastructure improvement; managing staff; and maintaining regulatory compliance. Some FSMCs serve all institutional sectors, while others are focused on a specific sector such as education or health care.

In some parts of New England, self-operated institutional dining services are still common. For example, many hospitals in New Hampshire choose to manage their own food service operations. However, FSMCs are increasingly common at institutions in New England and around the country. The primary reasons institutions decide to work with FSMCs are: (1) their own administration does not have the expertise or staff to manage dining services, (2) they believe FSMCs will lead to cost savings, or (3) an infusion of funds are needed for construction or other improvement projects.<sup>1</sup>

## THE BIG THREE

*There are over 200 FSMCs in the United States, but the three largest by revenue are Compass Group, Aramark and Sodexo (in descending order).*

In 2013, these companies generated a collective \$31 billion in sales in North America. The education sector (K-12 schools and colleges and universities) generated \$9.59 billion in sales and the health care sector generated \$7.4 billion. The remaining sales came from the government, corporate, and sports and leisure sectors. These three companies provided food service management for 47% of all hospitals, 21% of colleges and universities and nearly 11% of all public school districts in the country.<sup>2</sup>

**Compass Group**, the largest of the three FSMCs, generated a combined \$6.7 billion in sales from the health care and education sectors. Compass Group is the parent company for **Morrison**, who serves the health care sector, **Chartwells** who serves the education sector, and **Bon Appetit Management Company**, which is a high-end specialty company that serves multiple sectors. **Aramark** generated just over \$4 billion in sales from these two sectors, serving 948 health care clients, 481 public school districts and 420 colleges and universities.<sup>3</sup> Finally, **Sodexo** generated nearly \$6 billion in sales from the health care and education sectors. They served 1,150 health care\* facilities<sup>4</sup>, 470 school districts and 850 colleges and universities<sup>5</sup>.

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\* **Note:** FINE uses the term "health care" instead of "healthcare" in order to emphasize the meaning and align with the term used by Health Care Without Harm, one of our key partners.

Due to the fact that these companies purchase and prepare food for such a large number of institutions, their buying patterns have a tremendous impact on the food system. For example, if FSMCs decided to make purchasing local or regional food a priority, they could greatly influence what regional farmers grow and the amount of land in production. For this reason, FSMCs are the focus of many local food system efforts. However, the first step in working with FSMCs is understanding how they operate and knowing their barriers and opportunities for increasing procurement of local food products.



## TOP THREE FOOD SERVICE MANAGEMENT COMPANIES: MARKET SHARE IN THE HEALTH CARE & EDUCATION SECTORS

	Health Care	Colleges & Universities	K-12 Districts
Collective Number of Clients for Top Three FSMCs	2,683	1,500	1,451
Number of Facilities Nationwide	5,724 <sup>6</sup>	7,021 <sup>7</sup>	13,588 <sup>8</sup>
Percent of Facilities Managed by the Big Three	47%	21%	11%

# FOOD SERVICE MANAGEMENT COMPANIES: GENERAL OPERATING SYSTEMS

***Every FSMC seeks a way to distinguish itself from the competition, but when it comes to the core business of purchasing food, they are rather similar.***

This section of the report provides a description of the way in which most FSMC procurement systems function, including product procurement and rebates, menuing, vendor approval and contracts.

## PROCUREMENT & REBATES

***Food service management companies sell their services based on their expertise in management of high volume food service at a competitive rate.***

One of the primary ways FSMCs are able to offer low costs is through their procurement companies or divisions, often called group purchasing organizations (GPO) or supply management departments. Supply management departments are part of FSMCs that act similar to GPOs and link purchasing to the management of the organization. GPOs can be structured in a variety of different ways. Their principal purpose is to pool the collective buying power of their clients to obtain volume discounts from vendors and manufacturers. An institution that is a member of a GPO is able to achieve savings based on the volume of all the GPO's institutional clients. For example, the GPO Foodbuy negotiates prices with vendors based on the volume of the 10,000+ sites that are managed by its parent company, Compass Group North America. GPOs most often negotiate with large national and international producers and distributors for discounted prices. Because this pricing is so important to their business model, purchases made

by individual clients are tightly managed. However, supply management departments of FSMCs traditionally have procurement management staff in the region. As a result, they may have a greater ability to partner with local suppliers, versus a GPO, which does not maintain management in the region.

One way purchases are controlled is through the requirement that products be selected from approved or preferred vendors. Most FSMCs require their clients to purchase 80% or more of their products through approved vendors. This is referred to as buying "on contract." Incentives for unit level managers may even be tied to the portion of products purchased from the approved vendors that have been negotiated for priority pricing. Incentives vary from reporting on annual performance reviews that are tied to merit increases to bonuses provided in addition to annual salaries.

A noted strategy emerging among FSMCs is to charge very low management fees to make themselves more competitive in the bidding process. This places greater reliance on revenue through volume discount allowances (VDAs), otherwise known as rebates. FSMCs have noted that VDAs are "a revenue stream earned through good management practices." The negotiation of volume discounts is standard practice in food and other industries from manufacturing to distribution. It is important to note that in the case of government agencies, including public school districts, FSMCs are legally required to transfer rebates, and any other cost savings, to the government agency. This requires the FSMC to provide transparent accountability to its client.

## Rebates come in three main forms:

- 1 The primary form is an **agreement with the distributor** for a certain percent off total purchases. For example, if the distributor sells a product to the company for \$10 and the FSMC wants a 14% rebate, the distributor marks up the price by \$1.40. Therefore, the client pays this inflated price of \$11.40 and the difference is profit to the FSMC, which is often partially shared with the institution.
- 2 The second most common form is a deal made **directly with the manufacturer or producer**. This is done for the highest volume purchases and achieves the best price. The manufacturer sends the rebate on an agreed-upon basis. This is common with large national contracts for products such as chicken, turkey and ground beef.
- 3 Third, a manufacturer that wants to move a **high margin product** (typically a prepared food) will offer big inducements (10-20% off) to buy the product in a short time frame.

## MECHANICS OF THE REBATE SYSTEM

### STEP 1: AGREEMENT DEVELOPED BETWEEN FSMC & DISTRIBUTOR/SUPPLIER

The agreement sets a percentage rebate based on a specified purchase volume. To account for this volume-based rebate, distributors typically increase the base prices of the product.

### STEP 2: SUBMIT FOR REBATES

FSMC submits for rebates over a specified time interval.

### STEP 3: REBATE PAYMENT

Distributors/suppliers send rebates to a FSMC's financial department. In financial statements, rebates are not shown as income, but are subtracted from operating costs.

### STEP 4: USE OF REBATE DOLLARS

Rebate funds are an important revenue stream for FSMCs and have benefits to institutions.



## MENUS & PURCHASING AT THE LOCAL LEVEL

**Most FSMCs have a staff of dietitians who develop a national menu. This menu is crafted to meet federal guidelines for school children (in the case of schools) and other groups with special needs, such as cardiac or diabetic patients in hospitals.**

The menu is also developed to incorporate contracted or preferred products. There are typically minor changes at the regional level to account for variations in regional tastes. However, individual institutions are encouraged not to make significant changes to these menus. In some cases, a menu may be developed at the unit level, but this must be requested by the client and/or incorporated into the client's contract with the FSMC.

As mentioned above, purchasing at the unit level is tightly managed. Most FSMCs use a computer ordering system that shows the “preferred” items in a clear, color-coded display, which adds efficiency to the ordering process. Unit managers are evaluated and either rewarded or disciplined based on their adherence to the contracted items. This results in a disincentive for purchasing any off-contract items. If an account manager wants to purchase an unapproved product, they must make a request to their district manager, who will communicate with the corporate office to determine if the item can be purchased. This can be a long and burdensome process for the account manager. To gain approval, the farm or food business, in most cases, must carry Good Agricultural Practices (GAP) certification and large amounts of liability insurance, which is standard for wholesale food purchases. Furthermore, in many cases a product will only be approved if it is not available from an already approved vendor. These requirements are large barriers for most mid- and small-scale producers, inhibiting sales to the institutional sector.



## VENDOR APPROVAL

**There are three types of vendors:**

- 1. Prime**
- 2. Approved**
- 3. Not Approved**

*\*Prime is also referred to as contract or preferred.*

The **prime** vendor carries the contracted items negotiated by the GPO or FSMC. This is typically a large distributor such as Sysco or US Foods. An **approved** vendor has gone through the approval process set forth by the FSMC and may carry one or more contracted products. Purchases from this vendor are then restricted to approved items. A vendor that is **not approved** will need to go through an approval process before selling to the FSMC and the facility.

The process for becoming an approved vendor varies based on the FSMC. Compass Group offers a link to a vendor application form on their website to initiate the approval process by their GPO, Foodbuy. In most cases, vendors must meet food safety requirements such as GAP certification by a third party auditor and/or have a Hazard Analysis & Critical Control Points (HACCP) plan in place, depending on the operation. Liability insurance is also typically required. For example, Foodbuy requires a minimum of \$5 million in liability insurance.



Credit: Katy Hiza

## TYPES OF CONTRACTS

*There are two main types of contracts between FSMCs and their clients:*

- 1. Profit and Loss (P&L)**
- 2. Management Fee**

Under a **profit & loss contract**, the FSMC assumes all financial risks and rewards of the food service operation. Generally, the P&L contract gives more autonomy to the FSMC to design a program of their choosing, along with some guidance from the client, particularly in the contract process. The FSMC receives payment for their services in the form of profits that are generated by the food service operation.

**Management fee** contracts require the contractor to provide a food service program specified by the client and in return they are paid a management fee, typically as a percentage of revenues.<sup>9</sup> This type of contract is a greater risk to the client because the operating fee is the typically the same (with some exceptions), whether or not the food service operation is profitable. However, the management fee contract gives the client more control over the operation including sources of product. In the majority of cases, contracts contain clauses and addendums to protect all parties against loss.



Credit: Ben DeFlorio



# WORKING WITH FSMCs TO INCREASE LOCAL FOOD PROCUREMENT

***Based on their large sales volume, institutions have the capacity to greatly influence regional food systems. Their demand for locally produced foods can signal farmers to increase their acreages and inspire new food enterprises.***

Local food advocates can work directly with FSMCs to enlist their support in leveraging the collective power of institutions to source from local farmers.

Most FSMCs recognize that there is significant momentum behind the local food movement. They realize that client and customer demand for these products is growing and that it's to their competitive advantage to provide local food options to their clients where feasible. However, there are also significant barriers, many of which are fundamental to their general operating systems, that limit their ability to source local.

## BARRIERS TO LOCAL PROCUREMENT BY FSMCs

***Below are five barriers to local food procurement by institutions contracted with FSMCs that were highlighted by interviewees of the Contracted Food Service Action Project during phase 1 research.***

Price was the first barrier mentioned by nearly every interviewee. Seasonality and consistency of the local food supply, limited regional infrastructure, food safety and insurance, and the rebate system were also called out as significant barriers for local farms to enter the institutional food market.

### 1. Price

One of the main issues mentioned by nearly every individual interviewed was that local products have a tendency to be more expensive than similar items purchased through conventional channels. This is true for both value-added products and raw farm products. In New England, local farm products are often more expensive because the farms are smaller<sup>10</sup> and the growing season is shorter than in the rest of the United States. This means that farmers are unable to reach the economy of scale realized by larger farms in other parts of the country. Despite this disadvantage, local products are likely to be cost competitive when they are purchased at peak season. One FSMC noted that their produce vendors are contractually mandated to use local when available, as it makes good economic sense in season.

### 2. Seasonality & Consistency

Seasonality and consistency of the local food supply was another issue that was repeatedly mentioned. The typical growing season in New England runs from April through October<sup>11</sup>, which means that FSMCs cannot rely on local producers for farm products year round. The need to develop and manage multiple relationships requires extra staff time which is an additional expense. Additionally, most farmers in New

England are unable to produce enough product to meet the demands of large institutions, which again requires the development of multiple farm contracts by the FSMC. Seasonality is a particular challenge for schools, which are not in session during the peak harvest months.

### 3. Infrastructure

Limited infrastructure for value-added products and proteins was highlighted as a significant challenge. For example, insufficient slaughter facilities make it difficult for regional ranchers and poultry farmers to increase their scale to meet institutional demand. Additionally, limited infrastructure to flash freeze produce or process various products makes it difficult for food businesses to extend the availability of local products into the off-season. This challenge is not specific to working with FSMCs, but is a barrier to increasing the supply of local proteins and value-added products in general.

### 4. Food Safety & Insurance

Even in instances when there are farms who can produce sufficient quantity of products on a reliable basis, FSMCs require high levels of liability insurance (often \$3-5 million) and numerous certifications to ensure food safety. This protocol was established to protect the end consumer and shield the FSMC and institution from lawsuits. They are important precautions, however, these existing criteria to protect public safety do not address the reality of operations on small farms in New England.

### 5. Rebate System

Lastly, the overall FSMC business model has been pointed to as a barrier for small farmers. The requirement to purchase on contract makes it difficult for institutions to develop independent relationships with farms outside of the FSMC, significantly impeding the ability of New England farms to sell to the institutional market. FSMC profitability is based on relationships with large suppliers who provide volume discounts. This system does not work for small and mid-sized farmers and suppliers that cannot afford to provide these large discounts in the form of rebates. However,

there are a select number of instances in which FSMCs will work with small, local vendors whose agreements do not contain rebates because their client has requested such an arrangement.

**There are opportunities to work with food service management companies to enhance the local food system and help New England farmers gain entry to the institutional market.**

## OPPORTUNITIES TO INCREASE LOCAL PROCUREMENT

**The barriers above are real and significant. However, there are opportunities to work with FSMCs to enhance the local food system and help New England farmers gain entry to the institutional market.**

These opportunities include aggregating demand from client institutions, forging relationships with regional distributors, focusing on binding contract language that requires local options, and encouraging expansion of promising pilot programs. Innovative institutions and supporters of regional food systems are seizing onto these opportunities to create change.

### 1. Client Demand

The largest leverage point to change the way FSMCs work with producers and suppliers may be through client demand. In a highly competitive environment, FSMCs recognize that if they do not meet their client's needs, the client can find another company that will. Institutions such as public schools, colleges and universities,



and hospitals are organizing across New England to present a cohesive message to FSMCs that they want to purchase local food products. Furthermore, advocates are organizing across sectors to further leverage their voice and demonstrate their collective buying power. This aggregated demand may assist FSMCs in identifying new suppliers or products in order to meet the client's desires.

## 2. Regional Distributors

One strategy that has taken hold is working with regional food distributors who have the capacity to develop relationships with individual farmers. These distributors, some of which are also referred to as food hubs, function throughout New England and enable smaller farms to aggregate their product to meet the demand of institutions. Furthermore, these distributors are able to carry the large liability insurance required by FSMCs, eliminating this barrier from individual farmers. Examples of these distributors include Black River Produce, which serves all of New England; Native Maine, which serves Northern New England; and Roch's Produce, which serves Southern New England.

## 3. Contract Language

Another strategy that offers great promise is to focus on the contracts between the client institution and the FSMC. Due to their binding nature, these contracts are a critical leverage point for increasing local food procurement. The bidding and contract negotiation process provides an opportunity for the client institution to include specific procurement goals and for the FSMC to outline its plan for meeting the client's local food needs. These may include identifying areas for growth in partnership with current and new local suppliers. Management fee contracts may provide more opportunities for local purchasing than P&L contracts because the cost is passed on to the institution rather than the FSMC, allowing the facility to articulate their approval for budget deviations.

## 4. Pilot Programs

Finally, expansion of signature pilot programs may provide each FSMC with the opportunity to develop their own unique strategy for working with local farm and food businesses. FSMCs are testing strategies for procurement of local foods in all corners of the country. Unfortunately, to date these programs have stayed small with limited impact on overall operations. However, these pilot programs could be expanded to change the ways by which FSMCs operate across the country.

## SAMPLE PILOT PROGRAMS THAT SUPPORT LOCAL AGRICULTURE

***Food service management companies are seeking strategies to distinguish themselves from their competitors as a way to garner new business in a highly competitive market. One way that companies can do this is by proactively integrating a diverse array of local suppliers into their purchasing profile.***

**In New England, Sodexo has taken steps to meet this demand through two pilot programs: Adopt-a-Farm and Vermont First.**

### Adopt-a-Farm

Adopt-a-Farm is the anchor of Sodexo's farm to school program.<sup>12</sup> It originated in Rhode Island in 2012 with the help of Farm Fresh Rhode Island (FFRI) and Roch's Produce. Sodexo Providence and a local farmer developed a verbal agreement through which Sodexo guaranteed they would purchase all the produce grown on a 20-acre area of the farm. In return, the farm worked with FFRI and unit-level Sodexo staff to develop their growing plan for the land. This collaboration was helpful in ensuring that the farmer grew the varieties of produce

that would be needed by the Rhode Island school being served. The growing plan was developed by the early spring so that farmers could plant on time and have the appropriate quantities and varieties of produce ready for the school year.

Roch's Produce, a regional distributor, picks up produce from the farm, handles all processing and delivers the final product directly to the schools. Roch's also carries the liability insurance sufficient to cover the producer. The intermediary role played by Roch's Produce enables mid-sized farms, without processing equipment, to gain entry to the institutional market. The Adopt-a-Farm program has been considered highly successful by all involved and it is slowly expanding to additional farms. In just two years it has grown to include four sites in Massachusetts: the school districts of Springfield and Fitchburg as well as Southcoast Hospital in New Bedford and the New England Baptist Medical Center in Boston. Sodexo is looking into further expansion of the program in additional New England states. [Browse photo album >](#)

## Vermont First

*Vermont First* is the newest local food initiative from Sodexo, announced in September 2014. Sodexo staff have worked closely with the Vermont Agency of Agriculture and farm to institution support organizations to develop this comprehensive plan to support the Vermont food system. Under this program, Sodexo will work with farmers, distributors, processors, state government, non-profit organizations and supply chain partners within the farm to institution sector to increase the amount of local food grown and sold in the state. The program is the first of its kind and will be watched closely for the success of implementation and impact on the food system.

As announced in a press release from the Vermont Agency of Agriculture, Sodexo has made commitments in the realms of communications, relationship building, and producer investment as part of a long term plan to develop a Vermont First brand.

### To do so, Sodexo has made the following key commitments:

1. Develop a plan to meet the production needs of Vermont farmers and enable businesses to buy local. This includes market analysis, technical assistance around production, processing and marketing.
2. Form a steering committee of Vermont stakeholders to discuss issues of procurement, marketing and customer demand.
3. Develop a formal commitment and investment that supports the production and purchase of local food.
4. Hire of a local food coordinator to broker relationships with growers wanting to meet the institutional market demand and track progress and growth in local food procurement.
5. Sponsor an annual summit meeting and two working group sessions around "scaling up" local food production and procurement.<sup>13</sup>

**"This exciting announcement [about the Vermont First initiative] will help us expand Vermont's farm-to-institution sector." - Governor Peter Shumlin (VT)**

# RECOMMENDATIONS TO INCREASE LOCAL FOOD PROCUREMENT

***Our recommendations fall under five general areas of work, including actions to be taken by FINE and other partner organizations and actions to be taken by FSMCs themselves.***

The primary criteria considered in development of the first four recommendations were: (1) Will the recommendation have a direct influence on the ability of FSMCs to increase procurement of regionally grown and raised products, and (2) Is the recommendation something that can be carried out by FINE and/or its network of organizational members? The fifth recommendation is geared toward food service management companies themselves. It includes suggested changes within the companies, although outside advocates like FINE will be necessary to encourage such changes. This recommendation does not meet the same criteria as the first four, but is important to facilitate change in procurement practices.

**We recommend these five actions (detailed in the following sections):**

- #1: Technical assistance for New England farms
- #2: Technical assistance for institutions contracting with FSMCs
- #3: Development of regional infrastructure
- #4: A regional gathering to determine a strategy for collaboration
- #5: Development of internal FSMC support for procurement of local food

## #1: TECHNICAL ASSISTANCE FOR NEW ENGLAND FARMS

***For many small and mid-sized farmers, it is difficult to navigate the systems necessary to work with large institutions and FSMCs.***

As FINE works to help more New England farmers increase in scale sufficient to meet demand from the institutional sector, technical assistance will be necessary.

### Part A

Individual farm scale and diversification of sales need to be considered when determining if a farmer should sell direct to institutions or work with a FSMC. ***It is recommended that FINE or one of their partners connect farmers with farm business training programs and provide assistance to farmers who are considering whether or not to work with FSMCs.*** This is not the right sales outlet for all farms.

### Part B

Once a farm has decided they want to work with a FSMC, it is not always clear what to do next. A liaison is needed to connect farmers with FSMCs and/or their approved distributors so that farmers can gain entry to sales at institutions. ***It is recommended that FINE or one of its member institutions play the role of this farm-to-distributor connector.*** In lieu of an actual liaison, it is recommended that a guidance document be developed to perform this function.

## #2: TECHNICAL ASSISTANCE FOR INSTITUTIONS CONTRACTING WITH FSMCS

**Food service management companies are legally bound to the terms of their contracts. Therefore, the language incorporated in any contract between an institution and FSMC is of great importance.**

Unfortunately, it is often after-the-fact that many institutions realize the language they should have included in order for their mission and values to be reflected in the food served at their institution.

### Part A

A request for proposal (RFP) is the first step in finding a FSMC. The RFP lets prospective bidders know what the institution is looking for in the food they serve and the approximate budget they have to work within. If a school, college or hospital wants to prioritize local, organic or any other type of food, they can use the RFP as a tool to gather information about a FSMC's ability to provide these types of products. **It is recommended that FINE develop guidance to aid institutions in drafting their RFP so that they can capture the information they need about how a FSMC will meet local food goals.** This guidance should include topics to consider and sample language for inclusion in an institutional RFP.

### Part B

The contract is the bottom line for FSMCs. They must meet the criteria that they agreed to, which can include procurement of local food if it is in the contract language. The researchers found that a well-crafted contract is an incredibly important tool for ensuring procurement of local food by FSMCs. However, ensuring inclusion of

the proper language can be difficult if an institution does not have staff with expertise in this area. **It is recommended that FINE develop guidance on how to craft contract language that will favor the procurement of regional products and articulate a tracking and reporting process to ensure the FMSC is meeting agreed upon goals.**

## #3: DEVELOPMENT OF REGIONAL INFRASTRUCTURE

**New England farmers and ranchers all face the challenges of limited infrastructure.**

Limited infrastructure is a familiar refrain in New England. For example, it is common to hear that New England has too few slaughter facilities and limited access to processors for produce. Furthermore, there is limited access to aggregators for small and mid-sized farmers, which is needed to gain entry to large contracts with institutions.

However, the researchers are not aware of any thorough survey of the infrastructure that does exist. **It is recommended that FINE conduct research to determine what infrastructure is currently in place throughout the six New England states and the actual processing needs of New England farmers in order to develop a regional plan.** This research would include food hubs or aggregators; produce processing facilities; and slaughter facilities for beef, poultry and pork; among others. This research would also explore the demand for these facilities by farmers throughout the region. Combined, these two pieces of research would enable the creation of a regional plan for the development of agricultural infrastructure.



## #4: REGIONAL GATHERING TO DETERMINE A STRATEGY FOR COLLABORATION

*There is shared enthusiasm by institutions, advocates and some staff at FSMCs to increase procurement of local food.*

Since each of these constituencies has a different set of goals and challenges, a common agenda needs to be developed in order to align this diverse set of stakeholders in movement toward the common goal.

### Part A

The landscape of regional food advocates in New England is large and diverse. Organizations have different definitions of local food and various other objectives that they are trying to achieve. Therefore, ***it is recommended that FINE convene institutions that contract with FSMCs and local food advocates throughout New England to develop a shared agenda.*** This would include a series of common goals and requests for their work with FSMCs.

### Part B

A step toward implementing the shared agenda would be to host a conference with both advocates and FSMCs. Therefore, ***it is recommended that FINE hold a convening that includes FSMCs to identify areas in which advocates, institutions and FSMCs can collaborate in order to meet regional goals for institutional procurement of local food.***

## #5: DEVELOPMENT OF INTERNAL FSMC SUPPORT FOR PROCUREMENT OF LOCAL FOOD

*Unlike the recommendations #1 through #4, this last set focuses on internal changes that FSMCs can make to enhance the ways in which they support the development of a sustainable regional food system in New England.*

### Part A

One of the main challenges FSMCs face in procuring local products is that they need to aggregate from multiple farms to achieve the appropriate quantity which can be very time consuming. Therefore, ***it is recommended that FSMCs hire a local procurement specialist for each region of the country.*** This extra staff support will provide the person-power needed to work with multiple producers. If a local procurement representative exists with a FSMCs, improved efforts are needed to ensure that this resource is utilized.

### Part B

A common challenge cited by FSMCs is the lack of adequate supply from local producers. To address this issue, ***we recommend that companies start with a focus on three to five products that are grown in abundance in each region.*** This approach will allow the companies to pilot integration of local producers into their ordering systems around a small number of products, enabling them to work out any glitches before ramping up.

### Part C

There is minimal infrastructure throughout New England to enable small and mid-sized farms to sell directly to FSMCs or through distributors at the quantities needed by large institutions.

***It is recommended that FSMCs develop a regional infrastructure grant program to help the supply grow to meet demand.*** Such infrastructure may include processing plants, slaughter facilities, aggregators, distributors and more. All of these types of facilities play an important role in enabling institutional clients to benefit from the diverse agricultural landscape in New England.

### Part D

Farmers need technical assistance in learning how to work with large distributors, meet the needs of institutional clients and obtain the necessary certifications. ***It is recommended that FSMCs hold bi-annual training seminars to provide this type of assistance to producers. It is also recommended that participation in this training be accompanied by a small grant to help farmers complete the process.***

### Part E

Most FSMCs require suppliers to be GAP certified. This process is cumbersome and expensive. ***It is recommended that companies change this policy to accept state GAP certification in lieu of the federal certification that does not take into account the realities of small farms in New England.***



# CONCLUSION



***If the collective buying power of institutions is focused, colleges, schools and hospitals will have a significant impact on New England's food system.***

However, given the prominence of FSMCs, institutions will need to strengthen their alliance in the movement to increase local procurement to strive towards a sustainable regional food system. There are many challenges to creating a shift in purchasing practices to provide New England producers with access to the institutional market. The barriers will require state and federal policy shifts, internal company policy changes, aggregation of customer demand and changes in the way farmers operate. While these are large obstacles, there are signs that these changes are already happening and an increasing number of companies are recognizing the value of local food procurement and the development of a sustainable New England food system.

Learn more at [www.farmtoinstitution.org](http://www.farmtoinstitution.org)

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- [11] The growing season varies by state. CT has the fewest frost days and ME has the most. Additionally farm practices such as high tunnels can extend the harvest season.
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# APPENDIX

## COMMENTS & RESPONSES

This report was released in draft form in January 2015 via a webinar presentation. FINE solicited reflections and comments in order to ensure accuracy of the information presented. All comments were compiled and many were incorporated into this final report. The following are comments that were not directly integrated into the report, along with responses from the project advisory team.

**Comment:** The tone of this report is misleading as it presents food service management companies (FSMCs) as “devious and underhanded”, but they are part of the solution.

**Response:** It was certainly not a goal of this project to portray FSMCs as adversaries. We recognize the value of working with FSMCs to identify solutions to the development of a diverse regional food system. The report does highlight areas where FSMCs have created innovative models to contribute to the growth and market for local suppliers, however, more work needs to be done by all members of the supply chain to make this the norm rather than the exception.

**Comment:** There is a lack of discussion around Group Purchasing organizations (GPO's) who dictate purchasing in health care facilities and are procurement entities that FSMCs do not control.

**Response:** The focus of this report was on aspects of the supply chain that impact local procurement cutting across three sectors: colleges and universities, K-12 schools and hospitals. With this in mind, we recognize that GPOs are a large component of hospital purchasing, however, they are much less relevant within colleges, universities and K-12 schools. Still, some discussion of GPOs is included.

**Comment:** The report notes that FSMC staff were interviewed and a request was made to clarify what individuals this refers to.

**Response:** We're referring to existing and former food service directors, current and former regional and national leadership from FSMCs who were interviewed by our project team. We told these individuals that we would not list their names to encourage them to speak openly.

**Comment:** A FSMC representative reflected that rebates, otherwise known as Volume Discount Allowances (VDAs), add value where the best quality is provided for the price and that price reflects efficiencies of value all along the supply chain. This example was given: “If a FSMCs commits to buy 10 million pounds of a specific product... 4 ounce boneless, skinless chicken breast... the farmer, processor and distributor can all achieve savings based on the efficiency of not having to produce another spec product. The VDA is based on these savings generated by lower costs and efficiency at every link of the supply chain and that is what is shared.”

**Response:** We agree that rebates do reward efficiencies in the supply chain particularly for those who are able to meet demand for higher volumes. However, as New England farm and food businesses are primarily small and mid-sized, it is more challenging for them than larger national suppliers to meet the level of supply required to obtain rebates. For this reason, the volume discount process is a barrier for New England producers.