



**LIDD**  
SUPPLY CHAIN  
INTELLIGENCE

# THE FUTURE OF FOODSERVICE DISTRIBUTION

Trends and Strategies  
Behind the Rapidly  
Growing Industry

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## ABOUT THE AUTHOR

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# INTRODUCTION

This eBook looks at **TRENDS IN THE FOODSERVICE INDUSTRY** that have the potential to massively disrupt traditional supply chains. In this book, foodservice distributors will learn:

- ✓ Led by millennials' preferences, the foodservice industry is changing rapidly and growing steadily
- ✓ Traditional foodservice distributors are not capturing this growth as emerging supply alternatives better address changes in the industry
- ✓ There are actions independent foodservice distributors should take to better position themselves in the shifting foodservice landscape
- ✓ These actions require investments and modifications to distributors' technology, warehousing and transportation footprint. Still, they are achievable and have great promise for those distributors bold enough to implement them



# THE 2% MENACE

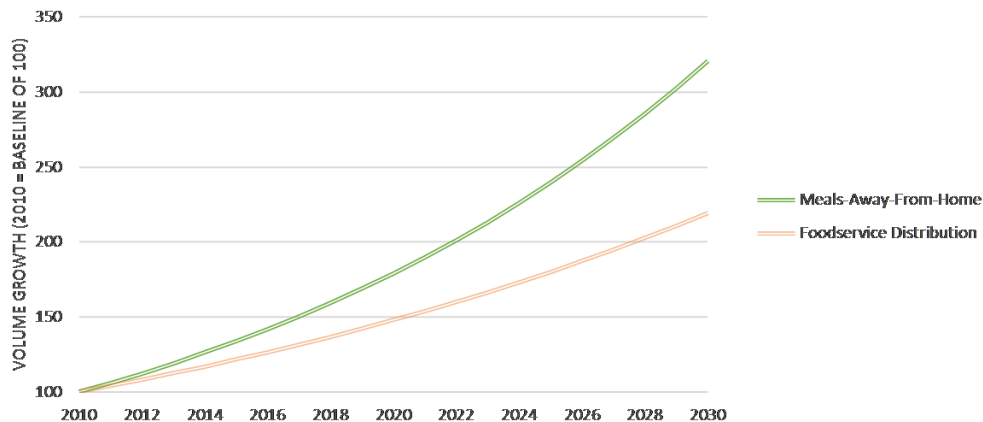
In a recent commentary on the foodservice industry, Performance Food Group pointed to robust growth since 2010:

- › Meals-away-from-home grew 6% annually over that period
- › Foodservice distribution grew 4% annually as well

At first glance, it looks like things are going swimmingly for foodservice distributors.

However, any foodservice distributor taking the long view should be a little troubled by that 2% gap. Every year, foodservice distributors are supplying less of their total market potential. Since 2010, they have effectively lost 14% market share. Extrapolate that gap out another decade and distributors will be cut out of 30% of the meals-away-from-home industry.

Foodservice Distributor Growth Lags Their Market





More worrisome, this shrinking of foodservice distributors market share could accelerate as the trends driving it are only beginning to take shape. While the big players – Sysco, US Foods, Performance Food Group – can mollify shareholders for the time being with their acquisition programs, independent, regional foodservice distributors cannot afford complacency:

- › To remain viable 10 years out or to be a compelling acquisition target for the larger players, regional foodservice distributors have to accommodate the new foodservice landscape, today.



In this eBook, we discuss the trends behind the growing gap between foodservice distributors and the meals-away-from-home market. We then prescribe what actions independent, regional distributors must take to harness the opportunity these trends present.



## THE DAWNING OF THE **AGE OF MILLENNIALS**

In Sysco's 2018 Annual Report, the company declares that:

“

*Millennials now represent the  
largest spend in the  
meals-away-from-home*

”

And just as their entry into the workforce led to all kinds of adjustments in how employers attract and retain talent, restaurants have had to adapt to the changes in consumer preferences this cohort has brought.

While millennials are not alone in driving these pattern changes, they are certainly at the forefront of two in particular:

- › A product's supply chain is essential in how a consumer values that product
- › Concurrent desires for global and local ingredients



## PRODUCT AS SUPPLY CHAIN

There's a famous comedy sketch from the TV show Portlandia where a pair of progressive diners want to order chicken but before they do, they want to know if the chicken is local. "Of course," the waitress answers. The diners continue on with a litany of questions about the chicken:

- ✓ Did it eat organic hazelnuts?
- ✓ Did it range freely in a cool and shaded yard?
- ✓ Was it happy?

The skit ends with the still ambivalent diners asking the waitress to hold their table while they drive out to the farm where the chicken was raised so they can judge its living conditions for themselves.





A hilarious exaggeration of a very real phenomenon; but consumers really do want to know what's in their meal:

- ✓ A 2018 study by Cone Communications/Echo found that 65% of diners want to know how their food was produced and 47% want information on the ingredients and sourcing
- ✓ This year, Chr. Hansen & Technomic produced a study which found:
  - › 56% of consumers have stopped visiting a foodservice location because of information they discovered (through 3rd party sources)
  - › 32% of consumers will reduce their visits to a foodservice location if that location doesn't use natural ingredients exclusively
    - ▶ 20% of consumers would not return at all if that was the case



In the age of having the sum of human knowledge at our fingertips, full transparency in foodservice is now a permanent expectation driven by:

## 1 Health & Diet

- › Consumers want to make informed choices that avoid allergens and ingredients they view as deleterious (e.g., MSG)
- › Consumers want to keep their diets balanced and calorie consumption in check

## 2 Sustainability

- › Consumers want to make sure their choices have a minimal, or better yet, beneficial impact on the environment



Restaurants must adapt to these preferences but may find themselves stymied by foodservice distributors who do not support the end-customers' need for transparency.





## THE GLOCALVORE PARADOX

Throughout human history, humankind has sought the freshest, most varied diet possible. With the massive technological transformation of the last 150 years, this means consumers in wealthy countries can access foodstuff – fresh or frozen – from across the planet. A local grocery store might have Asian pear, abalone, guava juice and New Zealand lamb at the ready.

Foodservice locations are increasingly catering to the globalized palate, borrowing and re-interpreting ingredients, techniques and dishes from the classic and obscure cuisines of the world.

- › **In a 2017 study of millennials' eating habits by Y-Pulse, 81% of millennials said they “enjoyed exploring new cultures through food”**

Equally, the goal of reducing the environmental impact of our lifestyles means that consumers want to maximize local sourcing in their diet. Millennials and like-minded consumers are more interested in this than average consumers.

- › **A recent study by The Hartman Group found that the category of diners who prioritize sustainability (“sustainable-receptive diners”) consume meals outside the home at a higher rate than the average person (18 meal occasions per month vs. 14 meal occasions per month)**



In effect, consumers want global and local ingredients, thus making them glocalvores! Foodservice distributors must support their customers efforts to satisfy consumer demands for both these global and local ingredients.

## MILLENNIALS IN THE EYES OF SYSCO AND US FOODS

Both Sysco and US Foods discuss millennials and the disruptive impact they bring to the foodservice industry in their respective 2018 annual reports. Interestingly, they approach the discussion from very different angles.

In Sysco's case, millennials come up on page 9 in the annual report's larger discussion of risks to their business:



*We may be required to modify or discontinue sales of certain items in our product portfolio, and we may experience higher costs and/or supplier shortages associated with our efforts to accommodate those changes as our suppliers adapt to the new eating preferences.*





While Sysco recognizes the new eating preferences triggered by the rise of millennials, they seem content to wait for their suppliers to adapt rather than lead the adaptation themselves. Tellingly, in a discussion of their private label product development efforts, they state on page 6:

**“ We are not engaged in material research and development activities relating to the development of new products or the improvement of existing products. ”**

Sysco recognizes the risk and amplifies the risk by not being especially proactive about it.

US Foods, on the other hand, strikes a much more optimistic tone in their 2018 annual report, writing on page 4:

**“ Changes in consumer preferences create opportunities for new and innovative products and for unique food-away-from-home destinations ”**



**The question for independent broadliners is: Do you see risk or opportunity? Are you with Sysco or US Foods?**



## **GROCERAUNTS & THE EMERGING ALTERNATIVES TO BROADLINE FOODSERVICE DISTRIBUTION**

*If the meals-away-from-home market is growing 2% per year faster than the foodservice distribution industry that supplies it, who is driving that wedge within the traditional foodservice supply chain?*



## CULPRIT #1

# GROCERAUNTS



*Grocery chains and mass merchants have blurred the lines between retail and foodservice for decades. Almost any Generation X child can remember the hot dog and cinnamon bun at the end of the yellow-lined aisle through Ikea's maze of furnishing departments. It was payoff for good behavior.*

These days, millennials have been driving grocery retailer investments in their ready-to-eat meal offerings.

A Technomic report on the groceraunt phenomenon found:

- › Millennials see grocery prepared foods as healthier options than what's on offer at quick-service restaurants
- › Between 2005 and 2015, the number of restaurants within grocery stores increased by 10% per year

The competition from retailers for consumers' foodservice dollars is well-known to many foodservice distributors. In fact, many **regional foodservice distributors have added retail customers keen to access foodservice-sized ingredients to supply their in-store foodservice locations.** This mitigates the threat somewhat.





## CULPRIT #2

# EMERGING ALTERNATIVES TO BROADLINE FOODSERVICE DISTRIBUTION



*Less known and/or appreciated by foodservice distributors are the alternatives now making small dents in their control of supply. To illustrate this point, here are two examples (plus one tangential example).*

### 1 THE WORLD'S GREATEST FISH MARKET

In 2017, the iconic Fulton Fish Market launched an online platform giving consumers and foodservice locations direct access to the nightly bounty of the market. Restaurants from across the US can now market their fish as being “straight from Fulton Fish Market.”

**FultonFish.com provides chefs with a high degree of customization in fish preparation so that fish arrive “pan ready” to the particular specifications of the chef.**

FultonFish.com prepares the fish and seafood to order and then air freights orders for next day delivery. On the retail side, it was partnered with Wal-Mart's Jet.com to supply Jet's customers with the freshest assortment of fish available. If they haven't already, foodservice distributors will likely follow before restaurants become overly comfortable buying directly from the world's greatest fish market.



A background image showing a close-up of fresh vegetables, including green leafy herbs and yellow and red bell peppers, arranged in a woven basket. The image is slightly blurred, creating a soft, natural feel.

## 2

### HYPER-LOCAL FOODSERVICE DISTRIBUTION

In 1971, Alice Waters opened Chez Panisse and pioneered California cuisine featuring, above all, local ingredients sourced from a network of local suppliers. Now that millennials have popularized this trend, **restaurants everywhere want to establish their own networks of local farmers and producers.**

However, this is time-consuming and complicated - it's why foodservice distribution exists, after all. Enter companies like 100km Foods in Toronto: a foodservice distributor whose supplier base is exclusively local, catering to the specific need for locally-sourced product for the restaurant community.

As a mission-driven business, 100km Foods likely won't be adding Scottish salmon or Kalamata olives to its product catalogue soon, but once having built an immensely valued, niche supply chain, it will be tempting for its customers to ask them (or some equivalent) to carry more and more products to reduce the number of vendors the customers must manage.



## 3

**SALADS IN A VENDING MACHINE**

While not an alternative form of supply, Farmer's Fridge represents another challenge for the traditional foodservice distributor: non-traditional options for consumers to have a meal away from home.

Across Chicagoland, in hospitals, fitness centers and office towers, Farmer's Fridge offers fresh snacks, sandwiches and salads to busy people who need healthy food fast. They sell their free meal solutions through their own proprietary vending machines. The vending machines provide utensils, napkins as well as a microwave for heat-and-eat options. Once finished, consumers can recycle containers directly into the vending machines.

Many young workers don't need to walk as far as the closest food court for a quick lunch from Farmer's Fridge. Travellers can enjoy this option too as the company has vending machines located across terminals at O'Hare airport.

The machines communicate sales in real-time, allowing the central kitchen to prep food and stock the fridges quickly, maintaining the freshest options for consumers. Equally, the machines connect to the company's app where customers benefit from its loyalty program.

Who supplies Farmer's Fridge? There is no reason it cannot be a foodservice distributor if it could keep abreast of emerging food technology solutions and work diligently to be a good partner to innovative companies





## DIRECT-TO-CONSUMER & FOODSERVICE DISTRIBUTION

In 2018, one of LIDD's foodservice distributor clients called with a question. They had been approached by one of their key chain accounts wondering if the distributor could provide fulfillment services for that chain's growing direct-to-consumer business.

The foodservice distributor's CEO asked LIDD. "Is this something we can do?"

The question, however, isn't whether they can or cannot do it. The question is: **Should they?**

The FAQ section of a terrific regional foodservice distributor's website asks the following question: "Do you ship products via FedEx, UPS, USPS?"

Their answer: *"As a leading food service distributor, we have the capacity and the wherewithal to deliver thousands of products to customers across several states [small, neighboring states] each day within our service area. We do not use third-party parcel services to deliver our products."*



A defensible, reasonable answer that fits within the traditional paradigm of the foodservice distribution industry. However, the question remains: **Should they?**

Technology has enabled restaurants to leverage their brand and unique products to extend their relationships with customers beyond the occasional meal on premises. A few examples from a variety of well-known restaurant brands:

- › *Stuck in Columbus with a craving for pastrami from Katz's Deli? No worries, they'll deliver.*
- › *Hankering for crab cakes from Legal Sea Foods? They're available at your doorstep.*
- › *Couldn't get a coveted table at Montreal's Joe Beef? They'll FedEx their famous hot sauce for your next home-cooked meal.*

Increasingly, restaurants need access to direct-to-consumer, cold-chain fulfillment solutions. To date, there are no clear cut, mature providers of such services as 3rd party direct-to-consumer logistics is overwhelmingly ambient and any cold chain 3rd party-service are overwhelmingly pallet-level or case-level operations.





**Foodservice distributors have much of the infrastructure needed to provide D2C cold-chain fulfillment.** And, they have key relationships with restaurants. Adding this service provides them with another means to defend and grow their client base. Avoiding this service achieves the opposite.



While they would need to invest in technology, materials handling and human resources to make this happen, foodservice distributors should consider the opportunity: D2C perishable supply chains remain an undiscovered arena ripe for exploitation. This is not to suggest that every foodservice distributor should rush headlong into developing D2C capabilities; however, they should remain keenly aware and ready to act based on customer feedback.



## PREPARING FOR THE FUTURE

### WHAT A FOODSERVICE DISTRIBUTOR SHOULD DO

So what should an independent broadliner do? Several factors specific to each distributor will shape their answer such as the market they serve (e.g., rural vs. urban) and customer mix (e.g., institutional vs. specialty restaurants). Succession plans matter here too:

- › If the ownership plans to remain a viable, independent distributor a decade or more from now, then the company will need to adapt to the transforming foodservice industry
- › If the ownership wants to become an acquisition target, preparing for the future of foodservice can increase a company's attractiveness as a target

Consciously or not, the last factor in determining what an independent broadline distributor will do is the Sysco/US Foods dichotomy: do you see the millennial disruption as a business risk or an opportunity?

All of the above might lead a foodservice distributor to do nothing, cross their fingers and hope for the best. While the trends discussed in this eBook will not disappear, they will not completely wipe out consumers' desire for pizza and chicken tenders, fries and a soda.





However, should a company decide to take action and seize the opportunity, here are 6 approaches it should consider:

## **1 SEEK OUT NEW KINDS OF CUSTOMERS**

The simplest adaption is to have your sales team expand the definition of target customers and become the supplier of choice to non-traditional foodservice clients.

- › Like Farmer's Fridge, many food tech companies have central kitchens that support meal kit, ready-to-eat and heat-and-eat solutions delivered to customers in non-traditional ways. These central kitchens need suppliers.

## **2 REVIEW AND EXPAND PRODUCT OFFERING**

The expansion of SKU offerings will be both flavor and health driven:

- › Gluten-free, vegan, plant-based protein alternatives as well as organics will proliferate product catalogues across all temperature zones
- › While global ingredients have been traditionally confined to specialty distributors catering to specific "ethnic" restaurants, the mainstreaming of these ingredients means restaurants of all kinds will seek them out. (For example, Pizza Hut now sells a pizza with butter chicken.)



Product catalogues cannot expand infinitely without causing chaos in the warehouse. The exercise of crafting the optimal assortment will include a de-listing exercise that responds to the new dietary preferences of consumers.

### **3 TRANSFORM “SPECIAL ORDERS” INTO AN ONLINE MARKETPLACE**

The bane of many DC managers, broadline distributors have always accommodated special orders through their supply chain. However, the process can be cumbersome and often treated like a nuisance to be managed rather than an engine of customer engagement.

Foodservice Distributors should create an online marketplace, a portal that allows their customers to do business with any supplier and execute purchase and delivery transactions through the distributor. Rather than have their customers seek out specialty distributors or work through the “one-off” special order process, an online portal allows the distributor to remain the node connecting producers to their customers while giving their customers the freedom to seek out differentiating foodstuff for their businesses.





#### 4 DEVELOP A HYPER-LOCAL SUPPLIER BASE

Restaurants know that the highest margin, most frequent diners seek out locally-sourced, ingredient-driven dining experiences. In response and agreement, restaurants must build networks of local suppliers and work with them to keep a steady flow of product available. Foodservice distributors can greatly simplify this task by creating a hyper-local supplier base and offering restaurants one-stop shop access to it.

##### **There will be challenges to overcome:**

- › Communication channels between the end customer and local suppliers, particularly for produce, to broadcast what's abundant and what's at its peak
- › Standardization of inbound goods into unitized units of sale (e.g., 25 lbs cases)
- › Inbound logistics



## **5 IMPLEMENT DIRECT-TO-CUSTOMER CAPABILITIES**

Become the distributor who can provide your customers with D2C fulfillment services. It will be important to properly cost the services out but setting up a pilot project would be relatively easy to do. Once a proof-of-concept is in hand, there would be technology, process and warehouse adjustments to make.

These services are in demand and there is no clear segment of the food supply chain that has established a solid footing here. Foodservice distributors have an opportunity to be that segment.





## 6 FIELD-TO-FORK FOOD TRANSPARENCY

The vast majority of foodservice distributors do not provide an adequate level of food transparency to meet consumer expectations. Your foodservice customers will favor those suppliers who can provide accurate, detailed information on the source and condition of the food that makes it onto diners' plates.

While many argue that technologies like blockchain will ultimately provide complete, trustworthy transparency to address this issue, many foodservice distributors already have the basic technology infrastructure required to approach this goal.



# FINAL THOUGHTS

- ▶ Led by millennials' preferences, the foodservice industry is changing rapidly and growing steadily
- ▶ Traditional foodservice distributors are not capturing this growth as emerging supply alternatives better address changes in the industry
- ▶ There are actions independent foodservice distributors should take to better position themselves in the shifting foodservice landscape
- ▶ These actions require investments and modifications to distributors' technology, warehousing and transportation footprint. Still, they are achievable and have great promise for those distributors bold enough to implement them





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We'd like to **hear your opinions** and learn from one another's experiences. After all, in a world filled with noise, the only way we can win is to cut through the clutter and invest time and effort in **making real connections**.

# CONTACT US



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