Multi-Unit Restaurant Purchasing 101

How large brands leverage volume to reduce costs

Step One: Broad-line Distribution - Get a Fixed Margin

As a single-unit operator, you primarily have one option to control your costs– buy from whichever distributor has the lowest price at a given time. Distributors sell to single units at what is known as ***street pricing***. There isn't a set markup, and sales reps have a lot of flexibility in adjusting the margin on any individual item, but their overall target is around 20-25% markup. The sales reps understand which items you pay the most attention to and which you tend to overlook, so you end up paying a 6% markup on chicken and a 35% markup on paper towels and green scrubbies.

As your brand expands past two locations, other options start to become available. Usually, once you have three locations or spend over $1 million a year with a distributor, you can gain access to fixed-margin pricing. This can take several different forms: percentage markups based on item category, flat percentage markups, fee-per-case, and incentive-based rebates.

Clark Culinary has the knowledge to negotiate the best deals possible for your business, and these negotiations can save you thousands of dollars on your broad-line expenditures.

Step Two: Join a Group Purchasing Organization

A ***Group Purchasing Organization (GPO)*** helps smaller restaurant groups access discounts on commonly used items. GPOs collect purchasing data from their member businesses and negotiate with manufacturers for preferred pricing and rebates for all members. GPOs are best for getting discounts on commodity-type items that are common across all types of restaurants and hospitality businesses.

The best GPOs have tens of thousands of member locations, no member fees, and pass on full-value rebates and discounts to their members. They make money by selling purchasing data to manufacturers, not out of their members' pockets. Selecting the right GPO for your business depends on what kind of items you are buying and which distributor you are buying them from.

Step Three: Direct Manufacturer Deviated Pricing

For your top-usage items, you may have enough volume to negotiate a better price from the manufacturer, which will lower your cost basis for the distributor markup.

Most nationally-available foodservice items have a marketing budget built into the case price. For example, a standard 6/5LB case of fries has an invoice cost of $30 to the distributor, and $5 of that price is earmarked for marketing. These marketing dollars may go to the distributor in exchange for pushing one fry over another, to a regional broker, or toward foodservice magazine ads. We want these dollars to go toward reducing your invoice cost. This is the best option for the manufacturer, too; when you commit to use their product, they aren't reliant on another party to market it for them.

Here's a secret: this is where a lot of purchasing consulting companies make their money — they charge lower fees to their clients, but behind the scenes they add in a ***contract management fee***. Instead of passing that $5/case on to you, they give you $3 and take $2 for themselves, often steering clients toward the manufacturer that gives them the biggest piece of the pie.

That's not the way Clark Culinary does business — our goal is to represent our clients' best interest; we always disclose financial relationships with manufacturers. Rather than working just on purchasing, we want to understand the whole scope of your business so we can make the best recommendations to improve profitability and grow your brand. We understand the challenges of growing a brand: our founder joined a three-unit company and grew it to over 40 locations. We understand the challenges that your brand will face in Operations and Distribution as you grow. We are here to be your partner for the long haul.

Our process begins with a free analysis — contact us to schedule an initial review.

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