Food Service Market Study on Secondary Cuts of Alternative Meats March 2004

Presented To:
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Executive Summary

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Introduction

This study was designed to identify market opportunities for the use and development of bison, elk, deer and lamb secondary meat cuts or value-added products in the growing Edmonton and Calgary foodservice sector.

Fine-dining restaurants, high-end hotel restaurants and ethnic restaurants and pubs are the targeted market for alternative meat processors to supply secondary and value-added meat products.

Fine-dining executive chefs and foodservice operators are continually looking for ways to express creativity and develop innovate menu ideas using new and exciting products. They are also looking at suppliers to assist them in reducing costs and providing products that ease their labour concerns.

Alternative meats provide executive chefs with ample opportunity to be innovative and create new, unique and exciting dishes that have significant visual, textural and favourable qualities. However, the challenge has been to source a consistent quality and supply at an affordable price. These challenges can be addressed through the development of a value chain.

Establishing a supply chain relationship between alternative meats processors and fine-dining, high-end hotel restaurants and ethnic restaurants and pubs for exclusive products will be beneficial to all parities. Through the development of exclusive products, the foodservice operator can distinguish itself from the competition by offering unique products. They are also less likely to receive product that does not conform to their desired specifications.

The benefit to the processor is consistent volume of sales. As well, typical operating expenses such as marketing may be reduced.

Learning

The research projected yielded much valuable learning from which final recommendations can be derived. These learning's have been grouped below:

<u>Availability / Supplier requirements</u>

- Product delivery is important. How often deliveries occur, freight costs, the time frame between ordering and delivery, quality of delivery system including trucks and offering delivery services when they are needed are all viewed as mandatory.
- The product must be received in good condition and at the time it was promised.
- "Subbing-off" is a concern. (See Exhibit K for definition)
- Flexible delivery. Unexpectedly high use of product can result in a restaurant running short of product. Having the ability to sometimes receive deliveries on non-delivery days is important.
- Timely correction of errors is necessary. If a restaurant receives a different product than ordered or is shorted (See Exhibit K for definition), they may not have enough product to fulfill orders.

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- The personality of their day-to-day contact is valuable to many chefs. Having a good relationship is vital to chefs. They want to work with an honest individual with integrity. The person must be reliable, have excellent product knowledge and they should believe in the product they are selling. A professional appearance and a willingness to be flexible and help are important.
- Good communication skills and customer service go hand in hand with many of the previously mentioned attributes that were deemed valuable to respondents.

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- A user-friendly ordering system is important to respondents.
- Most suppliers impose minimum orders on products since doing so keeps delivery overhead low enough to keep overall costs down. Respondents often mentioned that these levels are set too high. Whether or not, lowering them will result in the suppliers' inability to sell product to that restaurant was not mentioned.
- Respondents want to be supplied with product samples, so they can play with it and see what it is capable of prior to purchasing it or putting it on a menu.
- Suppliers must follow government regulations.

<u>Price</u>

- Value added products are often perceived to be too high.
- Respondents prefer consistent pricing. Fluctuations are a source of frustration.
- Respondents like to see introductory pricing to encourage product trial.
- Prices should be fair. Fairness is subjective and may not be possible to determine without consideration to the price tolerance of the restaurant, its management and its staff.

<u>Consistency</u>

- Consistency in the butchery of the meat is very important. There were large-scale mentions of lack of meat-cutting skills when it comes to food service.
- The product must be able to be supplied consistently. When an organization puts a product on its menu, it must be able to secure adequate volumes of product through the life of that menu.
- Meat quality should be consistent. This includes fat content, colour, aging and portioning.
- Many respondents prefer the product not to require any additional kitchen labour for value added products. They suggest they already pay more for value-added products, so an increase in overhead for internal labour is not acceptable.
- The size of the cut should be consistent. Preferences ranged between 4 oz – 8 oz sizes, however, the nature of the cut and the type of meat can influence this dramatically.
- Products should be RTU (ready-to-use). Some wanted them as bone-free as possible. Others preferred netted roasts or all gristle and fat removed prior to receiving the cut. It appears important to confirm the preferences of each establishment on an individual basis.

<u>Quality</u>

- Colour, touch, firmness, texture and taste are important. The ability to do a visual through-package examination is desirable. The condition and smell of the product should represent a quality product.
- Many respondents prefer products pre-cleaned and trimmed to the chef's specifications.
- Pre-made products should arrive frozen, since pre-processing may affect the lifespan of a fresh product.
- Utilize the cut so you can see it", "try not to hide it", "keep the natural shape or the original form" and "natural in its look and taste" for value added products. Unidentifiable nuggets or lumps are not appealing to many respondents.
- Larger secondary cuts are preferred fresh, as opposed to frozen.

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Cooking Methods

- Simplicity of preparation is important to some respondents. Others have no preference.
- Grilled, braised, oven-baked, deep-fried, roasting and broiling are the most often cited means to preparing secondary cuts.

Packaging

- Consistent packaging is important so boxes can be easily located from the restaurants inventory.
- There was almost universal agreement that products should arrive COV (cryovac'd).
- A definite preference towards smaller case sizes (less than 20 lbs) was indicated. Many respondents preferred to see cases broken into smaller packages of 2.5 – 5 lbs. Products should be packaged flat in COV in the shape of a textbook to fit shelving easily and allow for quick defrosting.
- There was a notable skew towards secondary cuts being sold in 10 kg or less. These products do not move as quickly as primary cuts and smaller orders allow the product to stay fresh and keep their inventory low. Many expressed the preference to be able to order items by the individual piece.
- Respondents tended to prefer value-added products (See Exhibit K for definition) to be bite-sized finger foods and IQF (individually quick frozen).
- Portion-controlled products are very important and need to be consistent in size and look.
- Packaging should be visually appealing and not repacked.
- Respondents mentioned the cleanliness of the packaging often. Blood and other materials do not suggest safe handling and increase the potential for cross-contamination.

A key research objective is to identify elements that could prevent or encourage the food service establishments to purchase and utilize secondary meat cuts. Research results pertaining to answering this question are shown below:

Barriers to Using Secondary Cuts of Alternative Meats

- Inconsistency of product supply can quickly result in a supplier having a product de-listed. It can even result in the supplier being removed as a vendor for all its products.
- Inconsistency of product butchery was frequently mentioned as a significant concern. There appears to be a major lack of processors who are familiar with and willing to cut to the specifications of the chef.
- Inconsistent sizing of the product can result in the product being dropped. An example of why was cited as "If two customers at a table both order the same meal and one has a piece of meat that is significantly smaller than the other, it affects the customers satisfaction with the restaurant".
- At times, respondents want to use local products but cannot do so because the cost is far higher than imported products. Lamb was mentioned in many cases.
- If the secondary cut of meat is very lean, it will not be used for buffet because it dries out quickly due to the low fat content. Some meat types are leaner than others. Also, some cuts are leaner than others.
- Some cuts are too lean and lack flavour. It is often the fat that gives the meat its positive flavours and textures.

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- If the alternative meat does not fit into the theme of the restaurant, it may not be used. For example, a Chinese restaurant will never consider using Elk.
- Some alternative meats or secondary cuts therein suffer for negative consumer perception. Secondary cuts are sometimes viewed as inferior cuts of meat (i.e. tongue, organ meats, sweetbreads, etc.).

- Some secondary cuts are tougher and the texture can be unusual to the customer.
- Some alternative meat has gamey flavours and this can affect the customer experience if they are not familiar with the meat.
- The "huggable" factor is a barrier that some consumers cannot get over. For example, lamb is considered too cute to eat by some.
- A negative past experience for the customer will often forever taint their view of the cut or the meat type.
- Some respondents see use of these products as risky. They tend to fear that the product will not sell or be accepted by the customer.
- Kitchen skills can create a barrier. Alberta Culinary Programs do not spend significant time on the preparation of alternative meats or secondary cuts.
- In the case of promoting value-added products to restaurants, many respondents suggest that pre-made foods could harm the reputation of the establishment.

<u>Encouraging Factors to Using Secondary Cuts of Alternative Meats</u>

- Secondary cuts involve creativity and different cooking techniques. This is desirable to many chefs.
- Secondary cuts are often priced lower than primary cuts which may allow for higher margins to the establishment.
- Many respondents view the increase in product knowledge as a positive. Dissemination of product information to chefs may encourage them to use them.
- Some respondents suggested that if they were given ideas on how to better utilize secondary cuts, they might be more apt to use them.
- Offering product samples was commonly suggested as a way to lower the risk for the restaurant and provide the chef with product familiarity.
- Use of secondary cuts can increase the variety on the menu. This is viewed as a positive by many respondents, but also as a negative to others.
- If the supplier is trustworthy, many respondents said they would try the products.
- Often mentioned was the fact that these meat types no longer have the gaminess, the negative aromas or aftertaste that were once associated with them. Promotion of this fact may help to remove barriers.
- Many alternative meat types and secondary cuts have lower fat content, higher nutritional value and more natural colour. This matches the trend of the last several years towards healthier meal choices by consumers.
- Training serving staff with better product knowledge and equipping them to push sales of these products would have a strong positive effect.
- Consumer knowledge of the positive attributes of the products would result in strong demand.
- Being supplied with nutritional information was deemed valuable to some respondents.
- Many respondents suggested that firm establishment of the products in the retail market would result in the food service market being strong.
- Some respondents suggested that a marketing campaign aimed at the consumer and chefs would help to increase awareness of the positive attributes while removing negative perceptions.
- Many respondents suggested that Culinary Programs should include secondary cuts of alternative meats as part of the curriculum.

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Recommendations

- There is a definite need for an up-to-date education program of some sort for processors. Respondents believe meat cutters need to offer better consistency and have the skills to be able to service the food service industry, rather than just a concentration on retail. Chefs are willing to help develop the program.

- Marketing Campaigns using secondary cuts of meats instead of primary cuts will help to increase consumer awareness and product use.

- Marketing budgets for samples of product or sponsorships of secondary meats to encourage chef use and consumer knowledge will contribute to increased trial.

- Conducting seminars for potential and existing producers, processors and marketers of alternative meats and secondary cuts can remove barriers. There is a current lack of ability for these groups to market products properly to food service. By teaching them what the food service industry requires, they will be better equipped to sell.

- The development of specific educational tools such as nutritional information, staff training, history/information of product, cooking methods, recipe ideas from other chefs, signage, tent cards for pubs, etc. will increase awareness of secondary cuts and alternative meats. Tactics such as the pairing of a secondary cut with a primary cut as the centre of plate (See Exhibit K for definition) will increase trial. Increased restaurant awareness will result in stronger consumer knowledge.

- It is important to explore pricing mechanisms of secondary cuts of alternative meats for the foodservice industry for the long term.

- Alternative meats and secondary cuts should be used more often for industry functions or events and government functions. As awareness of these products increases, a critical mass will be attained. Once this awareness is attained, alternative meats and secondary cuts will see a large drop of barriers and an instant market that can then thrive.

- Deer and elk are perceived as similar meats by chefs and consumers alike. There is a need to differentiate them. They are currently marketed as venison, but there are enormous differences between each animal and the resulting cuts.

Background

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Background

Alberta Agriculture, Food and Rural Development (AAFRD) in collaboration with Lori Menshik, Full Course Strategies Inc. completed a "Food Service Study on Secondary Cuts of Alternative Meats" in March 2004.

This study was designed to identify market opportunities for the use and development of bison, elk, deer and lamb secondary meat cuts or value-added products in the growing Edmonton and Calgary foodservice sectors. The resulting research report outlines recommendations for alternative meat processors to supply secondary and value-added meat products to fine-dining high-end hotel restaurants and ethnic restaurants and pubs by:

- Highlighting factors that most strongly influence food service buyers when purchasing alternative meat products.
- Identifying foodservice requirements for secondary cuts of bison, deer, elk, and lamb.
- Identifying elements that would encourage or discourage foodservice establishments from purchasing and using secondary and value-added meat.
- Recommending strategies to assist food processors in developing bison, deer, elk and lamb products to meet the needs of foodservice buyers and successfully market their product.

This project was inspired by Alberta's food industry's increased desire to target a consumer market segment, identify their needs and meet them through a coordinated supply chain.

Also, a 2002, Alberta Agriculture, Food and Rural Development Regional Cuisine Study identified the opportunity for the development of a regional cuisine value chain.

At the same time a national effort, "Cuisine in Canada", focusing on culinary tourism, was evolving within the Canadian foodservice industry. Product development strategies have been identified as a method to increase culinary tourism.

In order to become a supplier to the foodservice industry, further research was required. More information was needed for the development of a successful supply chain. This involves the processor and the producer of secondary and value-added alternative meats for the ethnic and bar food service market.

Foodservice and Hospitality

<u>Food Expenditure</u>
In 2001, Canadian households[1] spent an average of $124 a week in either stores or restaurants. Although this is similar to 1996 (when inflation is considered), our growing preference for eating out and convenience foods has changed how we spend our food dollar. In 2001, households spent an average of $38 a week in restaurants and $86 in retail outlets. (Statistics Canada, 2003)

[1] Average household size is 2.3 people.

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In 2001, almost 60 per cent of restaurant spending took place in table-service restaurants, 26 per cent in fast food restaurants (including take out) and 10 per cent in cafeterias and snack bars and chip wagons. (Statistics Canada, 2003)

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Trends

Food consumers are segmented by demographics and lifestyles, while their consumption patterns are determined by age, gender, income, attitude, perception, and other factors. Understanding and tracking changes in consumer demographics and lifestyles is the underlying basis to most of today's consumer trends.

In Canada, there are more people with different ethnic backgrounds, lifestyle and tastes than ever before. Today's consumers are generally more informed, well traveled, and willing to try new tastes and experiences. This has lead consumers to search for:

- Bold, more intensified, authentic and rich flavours
- Unusual, new unique products
- Experiences

A second trend is the aging baby boomers that are increasingly preoccupied with health and age related issues. The result is an expanding market for healthy and nutritious alternatives. They are requesting:

- Choice ingredients, 100 per cent natural or organic, premium quality, without filler or preservatives
- Nutritional value – meets dietary restrictions such as low in fat, cholesterol and carbohydrates.

The third driving force in the foodservice industry is the demand for local or regional foods both as a tourist product and because of consumer interest in where and how food is grown. In discussions with chefs at events such as the Round Table Discussions on Regional Cuisine, Explore Foodservice workshops, and Finding New Markets & Partners for Your Meat Products in Foodservice, it became apparent that executive chefs in high-end tablecloth restaurants were very interested in sourcing regional and local foods to feature on their menus. Many mentioned they were unaware of what products were available locally and which producers were capable of supplying the foodservice industry. (McGregor, 2002)

A key component of tourism is food. In 2001, tourism accounted for approximately 23 per cent of Canadian foodservice sales, or $8.5 billion per year (Canadian Restaurant and Food Association [CRFA], June 2004)

Although shopping and sightseeing are the two top activities of international travelers, dining in high-end restaurants is third.

The demand for locally produced foods is further increased by consumers' environmental and food safety concerns. Consumers' desire for traceability, sustainability and accountability is one of the factors driving the growth in regional cuisine.

<u>Industry Structure</u>

The foodservice industry, also referred to as hotels, restaurants and institutions (HRI), is one of Canada's largest and most dynamic industries. It consists of a wide variety of operations, food products, employee skills and price points.

The Canadian foodservice industry consists of a variety of establishments that fall into one of two categories: commercial and non-commercial. The commercial foodservice segment includes all establishments where their core business is food and beverage service, where as non-commercial food service is secondary to their core business activities.

Commercial Foodservice

The commercial foodservice sector is defined by businesses whose primary focus is food and beverage service. It represents approximately 78 per cent of the total foodservices sales. (CRFA, 2004)

- *Full-service Restaurants* are licensed and unlicensed fine-dining, casual and family restaurants, restaurant-bars that offer a broad menu selection along with table counter or booth selection and wait staff. These establishments offer meals and snacks for immediate consumption, primarily on site.

- *Limited-service Restaurants* are quick-service restaurants, cafeterias, food courts and take-out and delivery establishments that offer a relatively limited menu of prepared and/or quickly prepared foods and beverages. Food is consumed on or off site.

- *Social and Contract Caterers* are companies that mainly manage foodservices in other business locations. Contract caterers supply food services to airlines, railways, institutions and at recreational facilities where as, social caterers provide food services to special events.

- *Bars* - bars, taverns, pubs, cocktails lounges and nightclubs primarily engaged in serving alcoholic beverages for immediate consumption (approximately 50 per cent of annual sales).

Non-Commercial

The non-commercial foodservice sector is defined as self-operated foodservice in establishments whose primary business is something other than food and beverage service. It represents approximately 22 per cent of the total foodservices sales. (CRFA, 2004)

- *Accommodation Foodservice* includes all food sold in hotels, motels and resorts.

- *Institutional Foodservice* consists of hospitals, residential care facilities, schools, prisons, factories, offices and remote camps that manage their own foodservice facilities.

- *Retail Foodservice* consists of the sale of meals and snacks that are sold in department stores, convenience stores and other retail establishments.

- *Other Foodservice* includes the sale of food through vending machines, sports and private clubs, movie theatres, stadiums and other seasonal or entertainment operations.

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Figure 1: Foodservice Industry Structure

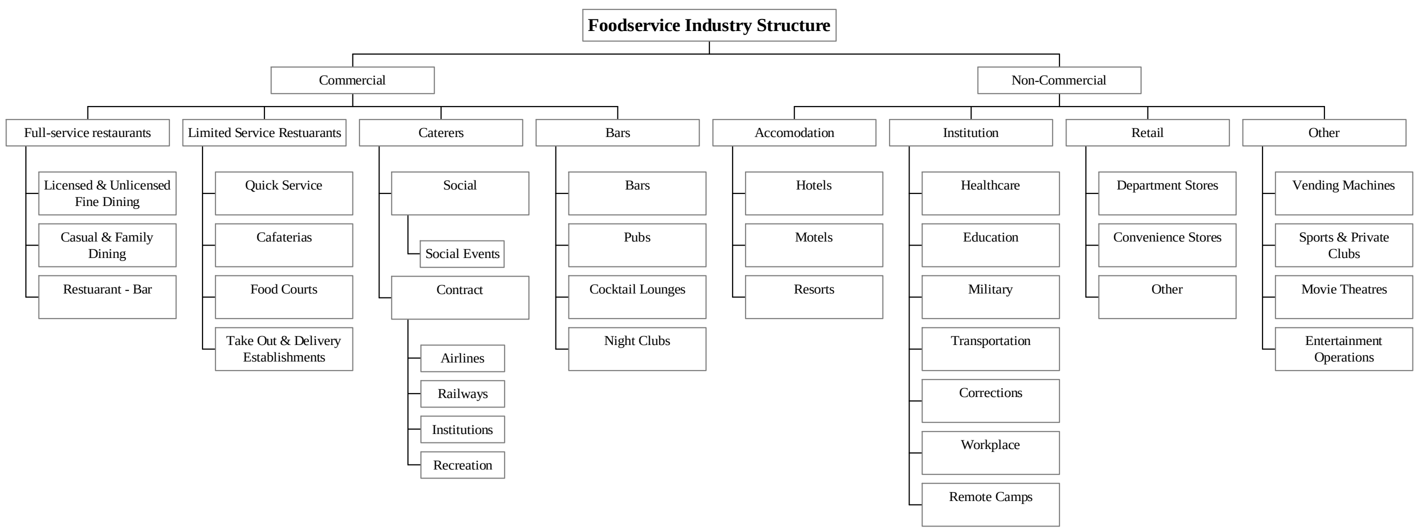
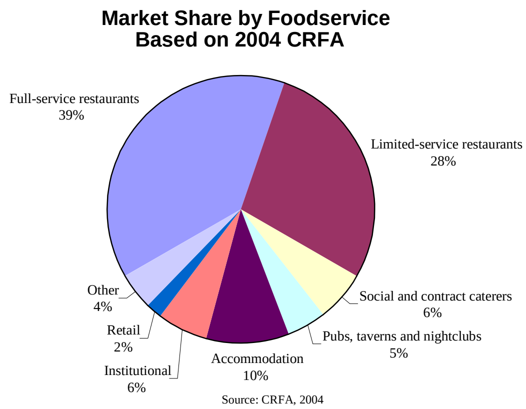


Figure 2: Market Share By Foodservice Category
Source: CRFA, 2004



Value
In 2002, the Canadian foodservice industry generated $43.3 billion, which represented 4 per cent of Canada's gross domestic product. A slow economy, a decline in tourism due to SARS, the war in Iraq, and a higher Canadian dollar resulted in a 1.1 per cent reduction in sales from 2002. However, early predictions indicate that Canada's economy is improving and foreign business and leisure travel will increase, stimulating growth in foodservice sales. CRFA's 2004 forecast is approximately $45.1 billion. (June 2004) Refer to table one for a detailed forecast.

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As a result of a high disposable income and no provincial sales tax, Alberta has a very successful foodservice industry. In 2002, Alberta captured $4.46 billion or 13.8 per cent of Canadian commercial food service sales. Alberta has led the country in per capita foodservice sales since 1999, reaching an average of $1,384 in 2002 and exceeding the national average by more than $300. (CRFA April 28, 2003)

Table 1: 2004 Foodservice Sales Projections

2004 Foodservice Sales Projection (millions of dollars)		
Source: CRFA, 2004		
Foodservice Category	**2004 Projection**	**Alberta (approx. 13.8%**
Total Commercial	**$35,007.20**	**$ 4,830.99**
Full-service restaurants	$17,423.40	**$ 2,404.43**
Limited-service restaurants	$12,577.00	**$ 1,735.63**
Social and contract caterers	$2,770.20	**$ 382.29**
Pubs, taverns and nightclubs	$2,236.60	**$ 308.65**
Total Non-Commercial	**$10,082.60**	**$ 1,391.40**
Accommodation foodservice	$4,456.00	n/a
Institutional food service (1)	$2,788.50	n/a
Retail foodservice (2)	$853.00	n/a
Other foodservice (3)	$1,985.10	n/a
Total Foodservice	**$45,089.80**	n/a

Supply Chain

Foodservice Operators
Alberta's foodservice industry is dominated by independent locally owned restaurants. They represent 60.3 per cent of the 6,400 foodservice outlets in Alberta. It is also one of the largest private sector employers in the province directly employing over 113,000 people in a wide range of full and part-time jobs in communities throughout the province. (CFRA, 2003)

Fine-dining restaurants, high-end hotel restaurants and ethnic restaurants and pubs are the targeted market for alternative meats processors to supply secondary and value-added meat products.

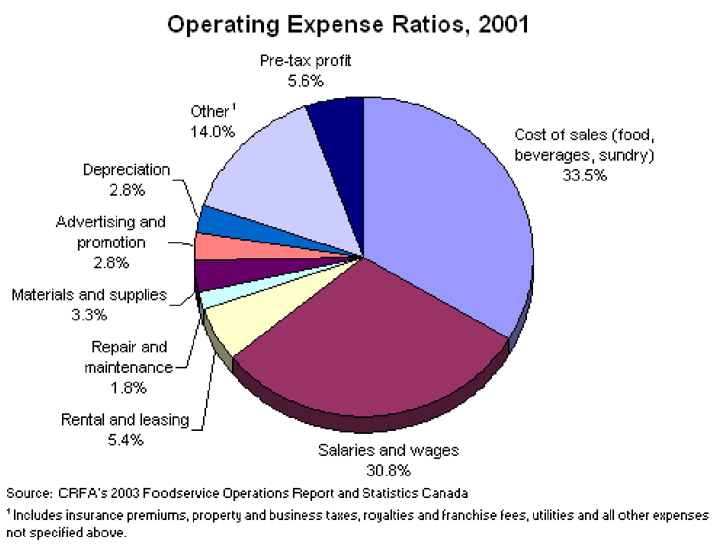
Fine-dining executive chefs and foodservice operators are continually looking for ways to express creativity and developing innovate menu ideas using new and exciting products. They are also looking at suppliers to assist them in reducing cost and providing products that ease their labour concerns. (Gallo-Torres, November 2003)

Alternative meats provide executive chefs with ample opportunity to be innovative and create new, unique and exciting dishes that have significant visual, textural and favourable qualities. However, the challenge has been to source a consistent quality and supply at an affordable price.

In 2001, commercial food services' average profit margin was 5.6 per cent. (CRFA, November 18, 2003) The two largest expenses are labour (30.8 per cent) and cost of goods sold (33.5 per cent). (CRFA April 28, 2003) Foodservice operators are challenged with the rising overhead and rising labour costs therefore portion control and cost per serving are critical.

The study, "An Overview of Bison Production and Processing in Alberta (Simba Enterprises Ltd., 1998) states that the most common reason for not offering alternative meats on the menu is the wholesale price. It was generally felt that products should not be more than 20 to 30 per cent higher than similar cuts of beef.

Figure 3: Operating Expense Ratios
CRFA's 2003 Foodservice Operations Report and Statistics Canada



Distribution
Foodservice buying and distribution systems vary. While some commercial foodservice businesses purchase product directly from processors and producers, the majority use distributors and brokers. Approximately 23 per cent of foodservice products are purchased directly from processors, 75 per cent from distributor/broker, and 2 per cent from cash and carry/warehouse club outlets. (Woodcock, 2000)

Distributors
As supply chain intermediaries, distributors are the key link between foodservice manufacturers and operators, taking over the majority of the distribution functions within the channel. Distributors are agencies that purchase, warehouse and sell product to foodservice operators.

A distributors focus is on sales, developing and maintaining relationships between foodservice operators and the products they represent. There are various types of distributors, including:

- Full-line – carries a complete selection of product categories
- Broadline – handles the majority of product categories but not as many as full-line
- National – have the capacity to distribute products across Canada
- Chain – handles multi-unit accounts
- Independent – not associated with national or chain distributors
- Specialty – concentrates services on small range of product categories and sell to targeted market or industry segment.

The top Alberta distributors are Bridgebrand, The Grocery People, HRI Supply, I&S Food Distributors, Koonings Wholesale and Total SERCA. Sysco Corporation and Gordon Food Service, which own Serca Foodservice and Bridgebrand Food Services, are also Alberta major distributors. These two companies hold an estimated 34 per cent share of Alberta's $4.46 billion market (Sysco – 23 per cent, Gordon – 11 per cent). (Huot, March 2002)

Brokers
A foodservice broker is a sales and marketing agent hired by a processor to represent their product to potential buyers. Brokers provide several services that assist processors in planning and implementing their marketing strategies.

Processors
Currently there are numerous companies and direct marketers selling alternative meats to a variety of foodservice operators. However, there is a concern regarding consistent supply and quality.

Meat quality is defined by the compositional quality (lean to fat ratio) and palatability (appearance, juiciness, tenderness, and flavour).

Appearance evaluates the quality of meat based on the visual identification of colour, marbling, and ability to retain water. The meat should have a consistent colour throughout. For optimal tenderness, juiciness and flavour there should be small streaks of fat dispersed within the meat.

The juiciness of the meat is determined by the fat content and the amount of water retained in the cooked meat product. The juiciness of meat increases flavour, softens the meat, and stimulates saliva production in the mouth. Fat around the edges meat cuts will also help to keep the water in.

Tenderness is determined by the person's perception of ease of chewing and softness. The animal's age and sex, as well as location of the muscle from which the cut of meat was taken affect the meats' tenderness. Younger animal yield more tender meat.

Flavour is another factor in meat quality. Meat flavour can be described as salty, sweet, bitter, etc. Meat flavour can be affected by age, water retention during cooking, and fat within the muscle.

Meat quality can also be determined by the way the meat is cut. A poor job of butchery will result in meat that is deemed unacceptable by many chefs.

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The literature review for this study also revealed the opportunity for processors to supply foodservice operators with products that meet their specific requirements; especially with respect to trimming, portion size and order size. There is a high desire to reduce labour costs, minimize waste and improve consistency in food preparation. As a result, there is a demand for pre-trimmed products.

Summary
Establishing a supply chain relationship between alternative meats processors and fine-dining, high-end hotel restaurants and ethnic restaurants and pubs for exclusive products can be beneficial to all parities. Through the development of exclusive products, the foodservice operator can distinguish itself from the competition by offering unique products. They are also less likely to receive product that does not conform to their desired specifications.

The benefit to the processor is consistent a volume of sales. As well, typical operating expenses such as marketing may be reduced.