

SYSCO—Volume and Customization Fuel Success*

In virtually every sector of the hospitality industry, when one thinks of purchasing the initial response is likely to include SYSCO Corporation. The territory of this supplier to the industry exemplifies multiple managerial business strategies. SYSCO created a purchasing concept from the supplier perspective that has been unmatched to date. SYSCO strategies include acquisitions, branding, co-oping, delivery systems, e-commerce, customization, product development, to name a few. SYSCO's rich history is the best starting point for this case study.

Company Profile

In 1970 SYSCO Corporation was established as nine entrepreneurs merged their companies in an initial public offering. One of them came to be SYSCO Food Services of Houston, LP. Through the innovative services and products, the company led its industry by 1977. In 1988 SYSCO became the first distributor with the capability to provide total, uniform services to customers across the country. Taking advantage of innovations in food technology, improved packaging, and advance transportation techniques, the company continues to provide its customers with quality products, delivered on time in excellent condition, and reflecting the quest for ever-improving efficiencies at reasonable prices.

SYSCO is the largest marketer and distributor of foodservice products in America. Operating from distribution facilities nationwide, the company provides its products and services to approximately 356,000 customers. The SYSCO distribution network covers virtually the entire continental United States and includes all of its 150 largest cities as well as the Pacific Coast region of Canada.

SYSCO provides customers with over 12,000 foodservice products—fresh and frozen meats, seafood, and poultry; fresh and processed products; beverages; china; glassware, and tabletop items; kitchen supplies and equipment; paper and disposable items; and chemical and janitorial supplies.

The foundation of SYSCO's success is superior customer service, extensive product knowledge, consistent quality of product offerings, and business-building support services. A distinctive mix of ever-evolving branded products and dedicated employees has thrust SYSCO into a new dimension from a distributor to a brand provider, supported by a depth of service unparalleled in the foodservice distribution industry. Brand width and service depth

*Information derived from SYSCO Corporation Annual Reports, 1999, 2000, and 2001, as well as www.sysco.com and www.sysco.software.com.

made SYSCO the distributor of choice for the “meals prepared away from home” market.

Six strategic acquisitions completed during 2000 strengthened both its geographical presence and its product offerings. They include three custom-cutting meat operations, two broad-line distributors, and a specialty produce company (Buckhead Beef Company and Tyson Foods, Inc.), to form the Electronic Foodservice Network (EFS Network), an internet-based, business-to-business network. Open to suppliers, distributors, and chain restaurant operators, EFS Network is aimed at cutting costs in the foodservice supply chain by more efficiently managing the flow of information and products to the marketplace.

Commitment to Quality Control

SYSCO Corporation maintains the largest foodservice distribution technical quality assurance staff in America with over 150 representatives. SYSCO quality assurance has developed finite specifications for products marketed under brands. SYSCO quality assurance staff inspects products during production, inspects incoming and outgoing loads at redistribution centers, and audits products at each distribution center. SYSCO's high level of control of the products packed is extended to all of its high-usage products. The staff travels nationally and worldwide to conduct ongoing plant inspections and evaluations. SYSCO's commitment to quality assurance not only controls its products' quality, but also results in the highest-quality products in the marketplace.

Fold-out Strategy

SYSCO's internal growth strategy involves building distribution centers in established markets that previously were being served by another SYSCO company from a distance.

When a fold-out company is formed, domiciled sales and delivery personnel become employees of the new company, a core management team is transferred from the original or other SYSCO companies, and additional employees are hired locally. Supported by a state-of-the-art facility and the SYSCO Uniform System, the new company is better able to serve its customers, and SYSCO grows more rapidly in both the original and the fold-out markets.

Milestones

- 1969 Incorporated in Delaware.
- 1970 Acquires the following companies: Frost-Pack Distributing Co. and its subsidiary, Global Frozen Foods, Inc.; Houston's Food Service Co.; Louisville Grocery Co.; Plantation Foods Corp.; Texas Wholesale Grocery Corp. and its subsidiary, Thomas Foods, Inc., and its subsidiary, Justrite Foods Service, Inc.; Wicker, Inc., and its affiliate, Albany Frosted Foods,

Inc.; and affiliates Allied Langfield, H&R Wholesale Co., Inc., and Sam Symons & Co.

Acquires Arrow Food Distributors, Inc., Koon Food Sales, Inc., Rome Foods Co., and Saunders Food Distribution, Inc.

Acquires Hallsmith Co., Inc., Miesel Co., Robert Orr & Co., and Hymie Fiakow Co.

Acquires Lauber, Inc., Baraboo Food Products, Inc., E.R. Cochran Co.

Acquires the following companies: Harrisonburg Fruit and Produce Co., Theimer Food Services, Sterling-Keeley's, Inc., Complete Foods, Inc., and Swan Food Sales, Inc.

Acquires the following companies: Tri-State General Food Supply Co., Marietta Institutional Wholesalers, Monticello Provision Co., Oregon Film Service, Inc., McBreen Trucking, Inc., and Mid-Central Fish & Frozen Foods, Inc.

Acquires Glen-Webb & Co.

Acquires Select-Union Foods, Inc.

Acquires General Management Corp. and its subsidiaries, S.E. Lankford Co. and Frosted Foods, Inc.

Acquires Pegler & Co. and Bell Distributing Co.

Acquires the assets of PYA/Monarch of Texas, Inc., and acquires B.A. Railton Co., New York Tea Co., CML Company, Inc., and DiPaolo Food Distributors.

Acquires Trammell, Temple & Staff, Inc., Deaktor Brothers Provision Co., and Bangor Wholesale Foods, Inc.

Acquires General Food Service Supply, Inc., Lawrence Foods Inc., Vogel's Inc., and Major-Hosking's, Inc.

Acquires for cash the net assets of Staley Continental, Inc.'s foodservice distribution business known as CFS Continental; acquires Fresh Start Foods Ltd. Partnership; sells Havi Corp. to TFP Acquisition Ltd. Partnership; sells Continental Coffee Co. of Houston to Quaker Oats; and sells Gregg/RE-MI to Borden, Inc.

Sells NCD Detergent, Inc., to Ecolab, Inc.

Acquires Oklahoma City Foodservice Distribution Business of Scrivner Inc. and Twin City Fruit, Inc., and sells Sysco Military Distribution Division and Select-Sysco Foods.

Acquires certain assets of Scrivner, Inc.

Acquires certain assets of Collins Foodservice, Inc., and Benjamin Polakoff & Son, Inc., and sells its Global/Sysco division.

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| 1993 | Acquires Perloff Brothers, Inc., St. Louis Assets of Clark Foodservice, Inc., and Ritter Food Corp. (which it renames Ritter Sysco Food Services, Inc.). |
| 1996 | Acquires Strano Foodservice Limited (which it renames Strano Sysco Foodservice). |

Recent Strategic Acquisitions

In order to meet customer needs, six strategic acquisitions completed during 2000 strengthened both geographical presence and product offerings. These acquisitions included three custom-cutting meat operations:

1. Buckhead Beef Company of Atlanta: The number one distributor of Certified Angus Beef™ products in the world in 1999; provides customers access to the largest inventory of wet- and dry-aged USDA Prime.
2. Malcolm Meats of Toledo, Ohio: Distributor of custom-cut meats and other protein products to customers and SYSCO broad-line companies throughout Illinois, Michigan, and Ohio.
3. Newport Meat Company of Irvine, California: Now SYSCO Newport Meat Company, one of the largest purveyors of fine meats, poultry, and seafood in southern California, offering products, services, and training to SYSCO broad-line companies in California, Arizona, New Mexico, and Utah.

Through the custom-cutting meat operations, SYSCO now offers precision, custom-cut steaks and other protein products to customers in certain areas. These three meat-cutting operations have taken customer service to a higher level, and each operation is a leader in its market area. They also supply other customized and portion-controlled meat and protein products, complementing SYSCO's existing broad-line capabilities. Strategically located across the United States, they offer SYSCO's operating companies in certain areas the opportunity to benefit from their product range and expertise while expanding their own market reach.

SYSCO's acquisitions also included two broad-line distributors: Doughtie's Food Inc. of Portsmouth, Virginia, and Watson Foodservice of Lubbock, Texas. These broad-line distributors enhanced customer service in the mid-Atlantic and southwestern United States. Annualized sales of these five companies together totaled approximately \$500 million.

The sixth acquisition in 2000 was a specialty produce company, Fresh-Point, Inc., which distributes specialty produce to 22 locations across the United States and Canada. Customers choose from a variety of produce items, from the conventional to the exotic. The company also specializes in value-added services including ripening and repacking.

This addition of FreshPoint, with approximately \$750 million in annualized sales, positioned SYSCO for significant future growth, as broad-line customers may now access a wider spectrum of unique specialty product items. Along with increased produce sales and enhanced product offerings, the FreshPoint acquisition also allowed SYSCO customers to enjoy the benefits of FreshPoint's in-house ripening and repacking procedures.

SYSCO now offers a full spectrum of produce in numerous varieties from everyday staples to the exotic. Opportunities also exist for strategic product cross-selling through both customer bases. Recently, SYSCO acquired certain operations of The Freedman Companies.

Autonomy Strategy

SYSCO is using the autonomy strategy for its acquisition process. There is no change in management when an acquisition is made. The acquired company continues its operations with its own employees—only the capital structure changes. If the acquired company has a strong brand perception in the market, the acquired company can keep its original name along with SYSCO, such as Nobel/SYSCO. The acquired company has power to manage its own company. Only capital expansion or equipment investment decisions need SYSCO approval. The autonomy strategy has benefited both SYSCO and the acquired company. Table 1 illustrates the benefits of the autonomy strategy.

Branding Strategies

SYSCO is determined that every product is pure, wholesome, and consistent with the high standards set by name brand products. The largest North American foodservice supplier, SYSCO has the industry's largest and most respected quality assurance department. SYSCO is dedicated to creating quality products that are a part of millions of lives every day, a responsibility that is taken very seriously. Unparalleled measures are taken to ensure that each product offered is as safe as possible. The quality assurance personnel's

Table 1 The Benefits of the Autonomy Strategy

Feature	Advantages	Benefit
Efficiency	Savings of time and cost in the acquisition process Savings of time and effort in regular operations and decision making	More profit generated
Market	Brand perception maintained	Market segment maintained; sales increased
Security	No employee lay-offs	Security for employees in the workplace
Expertise	Employees expert in the field	Better products and services

objective is to ensure that every SYSCO product, at every level, meets or exceeds the toughest industry standards. SYSCO has made food safety a top priority for over 25 years. The recalls on millions of pounds of ground beef reinforce the importance of quality assurance in the foodservice industry.

The produce department of SYSCO has a quality assurance program that was developed to improve upon the performance of the daily fresh produce inspection—a unique characteristic to the foodservice industry. These programs assist in the identifying and branding of the highest quality in fresh produce in the foodservice marketplace.

The quality assurance inspection department has developed and maintains coffee specifications for each SYSCO brand product. These specifications define every aspect of the product, which includes blend, minimum quality of raw materials for each blend, decaffeinating process, grind, roast color, moisture, oxygen, and packaging and labeling.

The SYSCO Canned Lot Set-Aside program is a unique industry program that assists in providing consistently high-quality products, categorizing canned fruits, vegetables, and tomatoes. Another monitoring program focuses on boxed beef, to ensure that every customer receives boxed beef products that meet all specifications set by the industry.

The commitment to delivering consistent products and exceptional value at all quality levels is unprecedented. SYSCO proudly stands behind each and every SYSCO brand product displaying the Guaranteed Quality Assured emblem and guarantees that these products conform to stringent standards for food safety, sanitation, and consistency.

Branding SYSCO has four levels of quality for every product: Imperial, Supreme, Classic, and Reliance. Imperial products are the best available quality that are produced in prime growing regions and packed to extremely high specifications. Supreme are top-quality products, similar in quality to Imperial, but exclusive in that they are rare in the industry and unique to SYSCO. The Classic brand is SYSCO's lead-quality level under which the finest-quality products are marketed. Classic products meet and even exceed top-of-the-line competitive labels and account for the largest array of products. Products with the Reliance label, an economy position, are equal to competitive labels and offer consistency and value.

Specialty Products Arrezzo is the family of authentic, Old World products specifically created for foodservice operations that feature Italian cuisine. Ottimo is the complete line of Italian products that provide quality at an exceptional value and are comparable with Italian distributors' brands. The Casa Solana brand, south-of-the-border-style products, is best suited for Mexican food. Block & Barrel is a collection of prepared products that features a variety of deli meats and cheeses, which is used mostly by delicatessen operations. Jade Mountain are the Asian products designed for Oriental meals. The House Recipe line consists of premium-quality tabletop products providing exceptional value to foodservice operators.

Specialty Companies SYSCO had the desire to create a cafeteria, food court, or freestanding mobile cart line with attractive signage to market the complete line of delicious, easy-to-prepare, heat-and-serve foods. The desire led to the creation of several different specialty companies. The Arrezzio Pizza program is an easy way to offer pizzeria-style pizza, by the slice or whole. Arrezzio Italian Café offers an appetizing display of Italian pastas and sauces, from a four-cheese Alfredo sauce to delightful, fresh pasta varieties. The Casa Solana Mexican Cantina offers exciting Mexican menus, featuring south-of-the-border favorites. Satisfying the hunger of the health conscious as well as those with hearty appetites, the Potato Gourmet features huge baked potatoes and a large selection of hot and cold toppings. To enjoy the taste of Asian cuisine, there is the Mein Street Wok, featuring a variety of popular Asian rice bowls that are convenient and easy to prepare. National Floor Insurance Program provides a number of dry goods to suit the front of the house, back of the house, bar, cutlery, healthcare, janitorial, and the outdoors. National Floor Insurance Program is able to meet the equipment needs of every type of company or establishment.

Marketing Strategy

Considering the very fast expansion SYSCO has had, one can understand why the corporation only does a short-term (usually 1-year) marketing plan. There is separate marketing for different brands. However, there are some basic strategies SYSCO utilizes to maximize its market share.

Be Present Everywhere SYSCO is the leader in total dollar purchasing volume of food and related nonfood products in the “away-from-home” market. Included in the away-from-home market are restaurants, delis, hospitals, retirement homes, schools, colleges, hotels, cruise lines, and entertainment facilities. This market is served by three distributor categories, as defined below, and SYSCO has its presence in every category.

- Broad-line distributors supply a wide array of food and related items to all types of foodservice operators. These operators generally require a broad spectrum of products, and their menu offerings may change frequently. SYSCO’s 62 “traditional” operating companies are broad-line distributors.
- Customized or systems distributors, also known as chain restaurant or quick-service restaurant distributors, supply chain restaurant operations. This customer segment generally serves a relatively fixed menu and requires a more limited product line. FreshPoint and the SYGMA Network, Inc., are systems distributors. SYSCO built SYGMA 15 years ago to accommodate this market. It is operated from the corporation level and has its headquarters in Denver. Its customers include some of the major national chains such as Wendy’s and Papa John’s Pizza.

- Specialty or niche distributors specialize in supplying a specific product category or a specific customer segment such as ethnic restaurants. SYSCO's custom-cutting meat companies are specialty distributors.

Take Different Approaches to Different Markets SYSCO divides its market into two segments:

- Marketing associate-served customers include independently operated foodservice locations serviced by a SYSCO marketing associate. Sales to these customers represented approximately 55 percent of total sales at SYSCO's 63 broad-line, or traditional, locations. SYSCO has a team of nearly 7,000 commissioned sales professionals, or relationship managers, who provide customers with services tailored to undergird their operations and profitability. Their responsibilities include assuring that orders are submitted timely and completely, presenting new products that will enhance the customer's menu or reduce the labor required for preparation, and assisting with inventory control and menu costing and pricing.
- Multi-unit customers include local, regional, or national foodservice operations that have multiple locations and, due to their more centralized purchasing operations, generally do not require the same degree of personalized, value-added services that Marketing Associates offer, but are supported by other sales personnel within the SYSCO companies. Multi-unit customers contribute approximately 45 percent of total sales at SYSCO's broad-line locations.

Categorize Customers Eighty-five percent of SYSCO's total sales come from only 25 percent of its customers. Therefore, SYSCO brackets its customers into four groups based on their order size, gross cost per stop for them, and SYSCO brand percentage in sales. It defines the top 10 percent as its Gold Customers, next 15 percent Silver, next 20 percent Bronze, and the rest "everybody else." They offer different special services above their standard service to different customer categories other than "everybody else." For example, they make special delivery arrangements for Gold Customers. By offering the special treatment, they want to motivate their customers and move them up to higher levels.

In summary, SYSCO's leadership success in the procurement arena can be attributed to the following four major management strategies:

- Acquisition of key players in the industry
- A fold-out strategy that economizes the system
- Concentration on SYSCO brands and specialty companies
- A responsive marketing plan

Case Discussion Questions

1. What advantages does SYSCO have over its competitors?
2. Acquisitions are a primary management strategy for SYSCO. Can you identify a product/service or brand which might fit the SYSCO acquisition strategy?