

CASE STUDY



FARM TO INSTITUTION: THE POWER OF PUBLIC SECTOR PURCHASING



Hayley Lapalme
July 2015

The Greenbelt Fund



Possibility grows here.

Copyright © 2015 Greenbelt Fund

All Rights Reserved

Greenbelt Fund
661 Yonge Street, Suite 500
Toronto, Ontario
M4Y 1Z9
Canada

Tel (416) 960-0001
Fax (416) 960-0030
info@greenbelt.ca
www.greenbelt.ca

INTRODUCTION

This case study explores how public institutions can use the procurement process to maximize the impact of their collective \$750 million annual food spends. The case described here spans four years and focuses on how a public sector group purchasing organization leveraged its buying power to enable a local sustainable cattle-processor to break into the institutional food service market. The case demonstrates how public sector purchasing contributes to bringing local and sustainable farming and food businesses to scale.

CONTEXT

The public sector procurement process and food service distribution model creates a system that is notoriously difficult for new or small to midsize farmers and processors to penetrate. In 2011, MEALsource, a non-profit group purchasing organization teamed up with non-profit My Sustainable Canada (MSC) on a Greenbelt Fund grant to strategize ways to increase local food purchasing at MEALsource. The two met through a webinar hosted by MSC around the impact that public procurement could have. “We’re a publicly-funded, member-driven, non-profit. The MSC webinar illustrated another way we could make our public dollars work for the public good,” recalls MEALsource Manager, Candice Bester.

MEALsource is a non-profit group purchasing organization that contracts food suppliers and distributors on behalf of thirty-three health care members.

They run a Request for Proposal (RFP) process that adheres to the BPS Procurement Directive, and which contracts more than half the food their members buy. They use a two-step RFP process. In the first step, they select the vendors and products they want. In the second step, they select the distributor who will carry that bundle of products.

The companies supplying these contracts are predominantly large national and trans-national companies that have a well-developed capacity to bid on and win public sector food contracts.

SEEKING ONTARIO SUPPLIERS

The project set out to increase MEALsource’s local food purchasing by five percent, building relationships with the local food value chain through outreach and education. By the project’s end, MEALsource’s local food purchases were up fifteen percent from the baseline. MSC started the journey to these gains by conducting an origin audit of MEALsource purchases. They identified protein as one of five categories where MEALsource could find more local farmers and processors. The team combed the Internet, its networks, and industry associations to identify local farmers and processors who might be able to supply

MEALsource. These suppliers were invited to attend a Local Food in Health Care workshop hosted by MSC, to learn about the needs of health care buyers. VG Meats was one of the local vendors in attendance.

THE PROTEIN REQUEST FOR PROPOSAL (RFP)

Shortly after the workshop, MEALsource tendered its protein RFP. To increase the odds of a winning bid coming from an Ontario vendor, MEALsource and MSC explained the process to local protein vendors and invited them to bid. The team worked to get news of the RFP out broadly, reaching out to inform organizations like the Ontario Independent Meat Processors (OIMP) industry association of the posting.

VG Meats was one of the few new vendors reached by My Sustainable Canada and MEALsource that was prepared to develop the fully cooked products needed in health care. They were one of many vendors to put in their first bid on the MEALsource contract. “Through MSC outreach, we went from eight vendors in 2009 to twenty-three vendors in 2011,” Wendy remembers. The VG Meats bid was not successful, and the incumbent won the contract for another two years. MEALsource informed VG Meats that every bidder has the right to an RFP debrief.

THE RFP DEBRIEF

Discouraged but hopeful at the prospect of understanding where his company’s bid was weak, Cory Van Groningen of VG Meats asked for a debrief. Wendy Smith and Candice Bester of MEALsource sat down with Cory to provide feedback. “We explained that they weren’t offering the kind of products that we were looking for and

VG Meats is a family-run Ontario meat producer-processor in Simcoe that raises cattle in small herds without hormones and without antibiotics. They have been serving customers through their own stores and major retailers since 1970.

Around 2011, VG Meats set their sights on breaking back into the institutional food service market. They had previously sold to local correctional facilities, but lost the contract when the terms exceeded their supply capacity.

Since then, they expanded their capacity by training more local residents as skilled butchers and by working with neighbouring farmers to encourage sustainable cattle raising practices.

With confidence in the quality of their beef, VG Meats set out to win MEALsource’s business. With an established reputation of producing quality, tender beef in a sustainable manner, VG Meats set out to win MEALsource’s business.

that their pricing was much higher than the other vendors who submitted,” explains Wendy. They went on to provide feedback on two issues: product cost and food safety.

ISSUE 1: Is Best Value a Question of Quantity or Quality?

MEALsource’s first concern was the affordability of VG Meat’s product. Healthcare budgets were already stretched and the price was higher than competitors’. Cory asked MEALsource to explain how they were evaluating products. “Cory’s question was a good one,” says Wendy. “So we compared the nutritional decks of the bidders’ products. It revealed that there was at least a fifteen percent higher protein yield from the VG Meats’ hormone-free product than from the competitors’. This raised a question whether our evaluation criteria was fair.”

The comparison demonstrated that value could be determined in terms of portion size or in terms of protein density per serving. “I asked MEALsource if they wanted us to make our meat cheaper,” recalls Cory, “because we could strive to put more water in our product to increase volume and dilute cost,” he says. “Everyone is striving for a lower cost per unit when we should be looking at cost per useful unit.”

MEALsource brought this insight to their members and asked if they preferred to assess value based on portion size or protein density. The members agreed that evaluating protein density was most valuable.

ISSUE 2: Food Safety Myths around the Provincial Meat Inspection Program

MEALsource’s second concern was the food safety certification obtained by VG Meat. VG Meats is a provincially inspected meat processor inspected by the Ontario Ministry of Agriculture and Rural Affairs (OMAFRA). This certification is the scale-appropriate choice for any meat processor wishing to sell their product within the province of Ontario. However, some MEALsource members held a common misconception that the provincial inspection system was less safe than the federal system. In many institutions it had become standard practice to buy federally inspected meat. VG Meats responded to MEALsource’s concern by inviting them to visit their processing facility to see their food safety program in action.

“When MEALsource came out we showed them our practices and addressed their misinformation about provincial inspection,” explains Cory. “Somewhere along the way they got the impression we hardly had an inspector here. But we do every time we slaughter animals *and* randomly through the processing, as required by OMAFRA.”

Meat Inspection in Ontario

Incidents in both the provincially inspected and federally inspected meat programs in the 2000s had damaging impacts on the whole meat industry. An isolated case of poor management in a meat plant in Aylmer, Ontario raised public alarm about meat safety in the provincial meat inspection program. The provincial meat inspection program intervened before anyone got sick, but the incident negatively impacted public perception of the provincial meat inspection program. The Executive Director of the Ontario Independent Meat Processors, (OIMP), Laurie Nicol recalls that “Despite being an isolated case, the incident affected our market price and painted a picture of the provincially inspected plants as being of lower quality. We lost a lot of market access.” Shortly after the incident, VG Meats lost the business of IGA, a major retail partner. In 2005, the Ontario Ministry of Agriculture and Rural Affairs updated the provincial meat regulation, but buyers continued to favour federally inspected plants.

In 2008, a listeriosis outbreak in a federally inspected Maple Leaf plant led to widespread recalls, but did not prevent twenty-two deaths. The outbreak from a Toronto plant caused the recall of 220 products Canada-wide, worth \$20 million, as reported by the CBC. Although the incident originated from a federal inspected plant, it again created a backlash against the provincial meat inspection program. “A lot of people got very nervous and thought the only way to protect themselves was to buy federally inspected food,” recalls Brad Wagner, Sysco Southwestern Ontario Director of Program Sales.

“We learned a lot from that field trip,” Wendy remembers. “In addition to seeing the rigour of their food safety programs, Cory also explained that they were pursuing HACCP (Hazard Analysis and Critical Control Points), but their plant was a few feet shy of the size requirement. And what it would require for them to get HACCP was a massive, massive renovation that they weren’t prepared to pay for yet. But otherwise they had met all of the markers for HACCP certification.”

MYTH BUSTING

In the absence of a decisive statement from the Ontario Ministry of Agriculture and Rural Affairs (OMAFRA) or the Canadian Food Inspection Agency (CFIA) explaining the difference between their respective certification programs, the group was forced to do its own research. The federal program led by the CFIA certifies processors selling across the country and for export. OMAFRA certifies processors selling within Ontario. Both programs have rigorous standards and mechanisms for enforcement, but cover different jurisdictions that target different sized operations. Wendy wrote up a brief for her members, who were persuaded by the facts. Wendy remembers, “Members were comfortable with the food safety measures in place at VG Meats, and very impressed with the quality of their product.”

With fresh learning about each other’s industries and needs, VG Meats and MEALsource were both compelled to improve their ways of business. VG Meats reached out to a number of MEALsource

members and asked about their challenges and needs. They invested in developing desirable new products for health care. “We figured we might as well develop the new product SKUs to match what they were receiving already so they wouldn’t need to rewrite their protocols for pulling frozen items to thaw, and what not. If a buyer wants us to, we could slice an ounce lighter, or half an ounce lighter, or cut the meat differently,” says Cory.

THE NEXT RFP, NEW CRITERIA

MEALsource came to the conclusion that they needed to update their evaluation criteria. “It has become apparent that the evaluation criteria, the standards for food safety, and a lot of the things that health care has in place, could potentially favour the incumbent. And a lot of the things - a lot of the practices that we had in running a request for proposal process really favoured the incumbent - things like pack sizes, and things which really don't matter when you're talking about what's on the patient's plate. Here we had this brilliant, protein-dense, hormone-free, antibiotic-free product ... and we would have to reject it.” Subsequently, MEALsource changed their evaluation rubric on protein to evaluate cost per gram of protein rather than cost per serving.

When MEALsource posted their next protein RFP with the new evaluation criteria two years later in 2013, they again focused on educating farmers and processors about the contract. They got eighteen bids this time. “You should have seen the walls – just covered in all the bid print-outs,” said Candice Bester of MEALsource. They evaluated every submission based on cost per gram of protein. “And with that in mind,” says Wendy, “the VG product surpassed the incumbent and all the other people who quoted. It changed the whole game.”

DISTRIBUTOR RFP

Once the winners of the protein RFP were selected, MEALsource issued the distribution RFP to carry the contracted products. Sysco bid and won. They initially proposed to carry an alternative to the VG Meats product. “Sysco has thousands of vendors and it is challenging to set up a new vendor. There is a lot of paperwork. So the question is often, is it possible to use an existing vendor, with an existing supply chain?” explained Brad Wagner, Sysco South West Sales Director. But MEALsource insisted on VG Meats product – and Sysco obliged. Brad explained that, “The biggest driver for us is customer demand. If we’re going to set up a new vendor, it takes customers to say, ‘I want to start buying this product. How do we make that happen?’ And MEALsource did that.”

VG Meats completed Sysco’s standard intake process for a new vendor, submitting insurance paperwork, signing a hold harmless agreement absolving Sysco of liability in case of a problem with their product, and learning about food service industry practices, like

barcoding. “It was a long process to get listed,” recalls Cory. “It’s a different language. We had to invest in scales and equipment to barcode. And it makes the club exclusive.” But by 2013, two years after their initial bid, VG Meats was on Sysco trucks and being distributed to MEALsource members across the province.

Laurie Nicol, Executive Director of the Ontario Independent Meat Processors (OIMP) reflected on the legwork that VG Meats did to get into public institutions. “The Van Groningens did a lot of work educating the buyers. It was a real investment of their time!”

EARLY SIGNS OF IMPACT

Together, VG Meats and MEALsource have had a significant impact on the food system. The persistence and business savvy of VG Meats combined with the institutional commitment from MEALsource to get best value and maximize the public good of their spending has gone a long way to reveal the potential of public procurement. We’re not where we want to be yet with foodservice – most of our sales are still coming from our retail stores,” admits Cory, “but we’re just getting started.”

VG Meats continues to innovate with their products and to out-compete longstanding industry leaders in supplying the needs of health care clients. Jim Irvine, Purchasing Coordinator at Grand-River Hospital is excited about VG Meats. “We’ve done a lot of new recipe development as we work with VG Meats product.” MEALsource is happy because their members are happy. They are getting better quality product without a higher cost, by strategically using smaller, more protein-dense serving sizes. And they are consuming meat from farmers who have broken from the industry norm of relying on hormones and antibiotics.

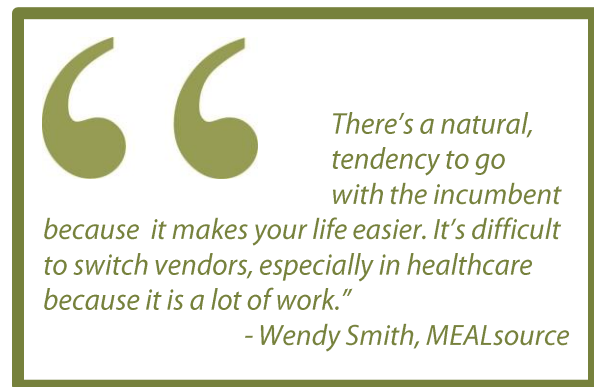
VG Meats employs a growing number of staff, who are highly trained for technical roles that give them meaningful employment in their community. They are meeting with more farmers to talk about sustainable cattle-raising practices. VG Meats now aggregates cattle on behalf of more than forty farmers who are working toward the same sustainability and quality outcomes as VG Meats. Their revenues have quadrupled in less than ten years. Their staff team, whose training includes a *Farm Term* to connect with agriculture and the values of locally grown food, has tripled in the same time.

INSIGHTS FOR THE FUTURE

This case identifies a number of insights regarding the role and function of public sector procurement in influencing the food system.

INSIGHT #1: Farmer Education Increases the Number of RFP Bids and Promotes Resilience in the Food System.

The number of bids on an RFP is an indicator of an institution's engagement with the local value chain. The more an institution educates local farmers and processors by sharing needs and demystifying the RFP process, the greater the capacity of local farmers and processors to submit a bid – perhaps even a successful one. If an institution is passive in seeking new bidders, the winning cycle of past bidders goes undisrupted. Past bidders and winners have the resources and experience to continue to be successful, making it difficult for new entrants to break in. Unless new farmers and processors are able to compete, the food system loses resilience and increases its dependence on the few suppliers who already know the rules of the game. MEALsource went out of their way to educate local farmers about the bidding process, ended up with more bidders than ever before, and were rewarded with a better quality product at a more competitive rate.



INSIGHT #2: The RFP Debrief is a Key Feedback Mechanism to Educate Bidders and Buyers Alike.

The RFP debrief increases transparency and innovation in the food system by creating a feedback loop that allows bidders to understand why they lost or won. It provides insights into customer needs, and provided a forum for VG Meats to demonstrate that the MEALsource RFP evaluation did not capture the value of their product. This benefited MEALsource as well, who developed a better understanding of the values their RFP was communicating. This motivated them to revisit their RFP evaluation and reflect on the measures that mattered to them.

INSIGHT #3: Empowering Small, Nimble Producers Drives Innovation and Competition.

Engaging with the local value chain can lead to rapid, responsive customization for institutional buyers. Local farmers and processors can have shorter feedback and innovation cycles, because they are locally run. Reaching these producers through workshops, product demos, or RFP education and debriefs enables them to customize their offerings for local institutions. “We’re in your backyard, we want to earn your business!” says Cory. Through education that enables participation and competitiveness, an institution can empower local farmers and processors without preferring any vendor. Direct insights into MEALsource member needs enabled VG Meats to understand and respond to those needs in a quick, innovative manner. Their short, local chain of command gave VG Meats the agility to immediately customize how they cut, cooked, and packed their product. This allowed them to “far surpass” all the competition in product performance.

INSIGHT #4: Measure What Matters to Capture the True Value of a Product.

Institutions may not be able to increase their food budgets, but they can get better value for their dollar. Understanding that protein density mattered more to members than the size of a portion allowed MEALsource to evolve their RFP metrics to more accurately measure the food characteristics they most highly value. Instead of focusing on cost, they focused on product quality.

INSIGHT #5: Persistent Myths about Provincially Inspected Meat Interfere with a Fair RFP.

Federal inspection of food is necessary because of inter-provincial and international trade. The provincial meat inspection program details and enforces a rigorous set of regulations that ensure food from these plants is safe. By asking questions and visiting VG Meats’ plant, MEALsource challenged the myth and were able to put it to bed, assuring members the provincially inspected meat posed no more risk than meat from a federally inspected plant.



Possibility grows here.

INSIGHT #6: Public Sector Buyers are Powerful Influencers – The RFP is a Tool to Drive Change.

Public institutions have a tremendous amount of buying power – and an unacknowledged power to influence trends in the food system. RFP evaluations focused on cost will continue to trigger a race to the bottom for the cheapest food. But RFPs strategically measuring what matters to the public sector buyer – protein content, sustainable agriculture practices, or the generation of skilled jobs – allow public buyers to be influencers for more resilient food systems.