



Since 2002, ArrowStream has helped chain operators and distributors in the foodservice and grocery industries to more effectively manage their supply chain and reduce logistics costs by an average of 20 percent. ArrowStream's suite of online software solutions gives chain operators tools to synchronize and manage their supply chain data, thereby enabling panoramic visibility into the supply chain. The software suite has a low total cost of ownership that is proven to save time and improve decision-making regarding product supply and pricing. ArrowStream's management team, with more than 60 years of experience in the foodservice, software, and logistics industries, developed an innovative logistics management network that optimizes each customer's inventory replenishment and routing, and substantially reduces transportation costs. To learn more, visit [www.ArrowStream.com](http://www.ArrowStream.com).

## When Times Are Tough, Innovate

### How to Conquer Food Inflation with Ingenuity

New, powerful market factors demand a paradigm shift in the operations of today's foodservice businesses.

To say that times are tough for the foodservice industry is a gross understatement. Food and energy prices continue in a steep upward climb, food transportation capacity is shrinking, and traffic at restaurants and quick-serve chains is falling. Consumers who are eating out are cutting back, trading down to more affordable menu items. Profits are shrinking as business is slowing. These trends are affecting businesses across the nation: the National Restaurant Association's Restaurant Performance Index recently reported that while 43 percent of operators saw same-store sales gains between May 2007 and May 2008, traffic continues to decline, with 45 percent reporting a traffic decline in May 2008.

What will it take for businesses to endure and maintain profitability despite extreme cost pressures? First, it requires acceptance that the marketplace has changed irrevocably. New, powerful market factors demand a paradigm shift in the operations of today's foodservice businesses. Second, winning the inflation battle requires determined commitment to infusing innovation and achieving operational excellence in the following four areas: 1) supply chain technology and collaboration, 2) freight strategy, 3) menu creativity and 4) promotional activities.

#### Are Higher Food Prices Here to Stay?

Globalization has plenty of pros and cons, but one thing it doesn't offer is simple answers. That is particularly true in the case of food prices. Numerous and often interrelated market forces are driving today's substantial food inflation:

- **Rising oil prices** are making it more costly to cultivate and transport food.
- Dramatic increases in **protein-based food consumption** in China and India are driving up demand.
- **A weak U.S. dollar** is driving up prices of commodities, such as oil and grains.
- Weather, natural disaster and political challenges around the world have caused **food production declines across the globe**.
- **Increased biofuel production** is shrinking the amount of crops dedicated to food production.

As none of these factors inflating food prices has an easy solution, the reality of higher food prices is a long-term one. Moreover, history has shown that when food prices go up sharply they tend to remain high.

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## A Look at Soaring Prices

The cost of foodstuffs on the whole is dramatically rising. Examining the price growth of individual products provides an eye-opening perspective into the challenges foodservice businesses face.

Product	Price Growth 2007	Projected Growth 2008
Fruits & Vegetables	3.8%	3.5-4.5%
Dairy Products	7.4%	5.0-6.0%
Fats & Oils	2.9%	11.5-12.5%
Poultry	5.2%	3.0-4.0%
Cereals & Bakery Products	4.4%	9.0-10.0%

Consumers have recognized that the prices they pay in restaurants today will likely be around tomorrow. According to the June 2008 Reuters/Zogby poll, 31 percent of Americans surveyed said they plan to eat out less frequently. Meanwhile, growth in spending for food at home is up and spending on food away from home (dining out) is declining. In a recent survey, foodservice consultancy and research firm Technomic, Inc. found that 85 percent of surveyed consumers say they are eating dinner at home more often.

### Inflation-conquering Strategies

If consumers have accepted the reality that higher food and fuel prices are here to stay, so too must foodservice businesses. They must take innovative approaches to reducing costs while retaining quality, selection and customer loyalty. Luckily innovation is widespread in the foodservice sector, and there are four key areas where enterprising organizations can reduce costs and increase efficiencies.

#### 1. Employ Supply Chain Best Practices: Innovation Plus Technology

Never before has it been so important for foodservice businesses to optimize their supply chains and collaborate. Technology innovations have made it possible to integrate and synchronize entire networks of trading partners, from chain operators to manufacturers and distributors.

Supply chain collaboration in which partners share critical supply and logistical data is proven

to substantially drive down costs, increase efficiencies and improve forecasting and decision-making capabilities. Leading restaurant chain Applebee's recovered over \$1 million in overcharges across its network of franchisees implementing its supply chain management and collaboration system. Church's Chicken, one of the world's largest quick-service chicken restaurant chains, has seen management hours reduced by more than 500 hours per week as a result of its recent supply chain overhaul. Today its managers take only five minutes to enter invoices that once required several hours of work.

Collaboration is a common business strategy for reducing spending, but for too long foodservice companies have gone it alone when it comes to supply chain management. Today's food prices as well as the interconnected nature of the global marketplace should leave no doubt in the minds of foodservice professionals: the savings that come with integrating and synchronizing the supply chain with trading partners are critical to remaining a competitive industry player.

#### 2. Retool Freight Strategy

Food delivery costs, like the price of food, are going to remain high. However, freight optimization technologies can identify favorable freight strategies for trading partners. By streamlining freight operations (truck/trailer utilization, routes, drivers' time, etc.) among its partners, a business will significantly reduce transportation spending. ArrowStream has found that businesses reduce transportation costs by an average of 20 percent by optimizing inventory replenishment, freight routing and scheduling.

#### 3. Mix Up the Menu

Restaurants and chain operators across the country are reworking their menus in order to reduce food costs while maintaining quality and appeal. Some of the most effective menu-adjustment techniques include:

- Creating bargain deals and combos to drive traffic and maximize profits
- Switching to seasonal and locally grown foods in order to reduce food transportation and import costs
- Reducing portion sizes and developing smaller portion menu items that cost less
- Introducing more high-margin foods and reducing the use of low-margin foods

#### 4. Leverage Limited Time Offers

Foodservice industry leaders have long employed Limited Time Offers (LTOs), a proven strategy for increasing sales, attracting new customers, boosting restaurant traffic and building brand awareness. Retail operators and restaurants can also leverage LTOs as a way to push higher-margin menu items and to focus customer attention on discounts that will ease pressure on their pocketbooks.

In addition, LTOs can be an excellent tool for testing new, lower-cost items in the short term to see if they can become long-term solutions

for reducing food expenses. Incorporating smart menus and value-driven items into LTOs are strategic ways to address the challenges high food prices present to both the business and its customers.

### Paradigm Shifts Required

Today's far-reaching food price increases are just one example of how dramatically the landscape is changing for today's foodservice companies. Businesses today are competing in a tightly interconnected global food market: a market in which weather on one continent affects food stores on another, and in which increased food demand in one country creates supply challenges for others.

What does an interconnected world require? Paradigm shifts in the areas of partner collaboration, supply chain visibility and transport solutions. Collaboration efforts—such as optimizing supply chain management and synchronizing logistics among partners—are ways to turn interconnectivity into profitability. Combine the value of collaborative, innovative business approaches with time-tested best practices, such as LTOs and creative menu modifications, and rising food prices are no longer a devastating business drain. Instead, today's rising prices become merely a stepping stone on the way to greater business excellence and ingenuity.

### Ways to Offset High Food Prices

- Leverage Supply Chain Technology to Increase Visibility, Make Better Decisions and Reduce Costs
- Replace Reactive Supply Chain Management with a Proactive Supply Chain Solution
- Optimize Freight Strategy in Collaboration with Trading Partners
- Make Innovative Menu Adjustments
- Leverage Limited Time Offers (LTOs)

Optimizing supply chain management and synchronizing logistics among partners are ways to turn interconnectivity into profitability.