

Big fast-food contracts breaking tomato repackers

By Charles Porter, Off Shore Marketing Inc.

We love our fast food hot, fresh and cheap.

The restaurant works hard to deliver on the hot and fresh, but the large corporate owners and their purchasing subsidiaries are responsible for the cheap. They are able to keep costs down by contracting for volumes that seem astounding. Millions of pounds of beef, chicken and french fries. Hundreds of truckloads of ketchup, cheese and buns. Enough soda to fill an ocean.

For the most part, everybody wins. The supplier makes a nominal profit and is able to keep his workers employed and his facilities operating. He figures he'll make a higher margin on his casual dining and retail business. Many of these suppliers are very large and support many of the large fast-food concepts at the same time, creating great economies of scale. They should be commended.

SHORT SHELF LIFE: But there are losers. And they are most likely going to be the fresh produce providers, growers of tomatoes in particular. Tomatoes have a really short shelf life. Unlike beef, chicken or fries, they can't be frozen. Cheese is processed and can last several months. Buns can last only a week or so, but the ingredients (wheat, yeast, etc.) can last a long time and the product can be made to order.

Tomatoes are picked, washed, graded, sized, packed and ripened at the farm. They are shipped to a repacker who will sort the tomatoes so each 25-pound box contains a uniform set of fully ripened product. These tomatoes need to be consumed in about a week. Tomatoes are grown primarily in Florida during the winter and California in the spring. The supply is dictated primarily by weather. Thus, supply levels fluctuate erratically throughout the year, as does the price.

Recently, Miami-based Burger King changed its tomato pricing method to the extreme detriment of the tomato farmer and tomato repacker. Restaurant Services Inc., which is owned by Burger King franchisees, handles the purchasing and sets the rules by which the game is played.

With the new pricing scheme, and under the expectation of loss of business, repackers were forced to discount the cost of tomatoes bought from the farm and the fees charged to sort, grade, package, complete the ripening and ship to the customer. The volumes are tremendous, and a repacker may require this volume to stay in business. Taking a loss on this volume is better than shutting down.

How can a company force its suppliers to lower the price, especially with fuel prices exploding and other expenses rising? Well you take advantage of the desperate nature of your tomato suppliers, most of which have been with you for 10 years or more. Without you, some of them may be out of business. These suppliers were able to find tomatoes when the farms were hit with freezes, floods, hail, wind and excessive heat. Suppliers who were so loyal that they cut off their other customers so you would always have tomatoes (more about this when we talk about the growers).

Suppliers you treated so well over the years that they never demanded any written agreements or contracts. You pit this loyal group against a new crop of repackers that want a small piece of the action. Several repackers who gave you their heart and soul for a decade or more have been replaced.

The growers were also affected. A select group of farms have been providing tomatoes to the repackers for around 10 years under a specific pricing parameter that fluctuated somewhat with the market price. They considered it fair and produced a market for

smaller-size tomatoes with little retail or other foodservice value. In fact, the growers geared their business to produce these smaller tomatoes, setting aside acreage. And they were loyal.

During those freezes, floods, hail, wind and excessive heat mentioned above, your repackers received whatever was available while their other fast-food customers and other more profitable customers went without.

Now, these growers are being forced to lower their prices for these specific tomatoes just so the repackers can break even. This eventually will work its way down to the tomato pickers, who may be forced to take a cut. Ironically, Yum! Brands, the parent of Taco Bell, KFC, Pizza Hut and others, just agreed to pay the pickers an additional penny per pound of tomatoes purchased.

INDUSTRY BACKBONE: These repackers and tomato growers are the backbone of the produce industry. Many were started generations ago by immigrants and their families making huge sacrifices to grow their business. They compete against imports from Mexico, which continually force down the market price. They fight the weather, which sometimes will wipe out an entire crop. They employ thousands of people, contribute to the economy and feed a country.

Forcing down the cost of tomatoes, a minor component on the fast-food menu, does little to make the restaurant more profitable. It will go a long way toward harming a loyal group of suppliers and growers and their workers.

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