

How Packaging Can Enable Growth and Innovation in the Foodservice Channel.

Historically, packaging has not received much consideration from the foodservice channel value chain. However, significant industry developments are driving manufacturers to consider new packaging alternatives.

We all know that the economic and lifestyle shifts among US consumers - aging baby boomers, more working women, more single parent households, and higher discretionary income, will continue to drive real growth for the foodservice channel. Additionally, US consumers are increasingly adventurous in their menu choices. A recent Technomic study indicated that 94% of restaurant patrons are looking for new items that they do not prepare at home.¹ US consumers increasingly demand superior quality in terms of food, service and atmosphere – all at the same price or less than they paid before. Lastly, consumers' needs are increasingly fragmenting along seemingly divergent paths such as indulgence and health, and their demands are changing faster. The same Technomic study mentioned above showed that 75% of all operators interviewed agreed that menu development cycles are decreasing.²

At the same time, operators are struggling with labor supply, increased costs, regulatory requirements and new competitors. To meet escalating consumer demands, they will have to rely on more value-added, pre-prepared products than ever before. For example, they will buy less cream, and more cream sauce! These pre-prepared products might be used on their own or modified in the kitchen to suit a variety of menu applications and culinary tastes. Of course, there are many pre-prepared products available today. Why are they not using more? While there are many excellent choices, there are just as many sub-optimal pre-prepared products. They are either too costly, in too big a package, have too short a shelf life or do not meet consumer quality expectations. Operators also are looking for new products that can increase their average transaction size, while meeting the needs of a distinct group of consumers. For example, many quick service restaurants are now offering healthier food and beverage options for kids on-the-go. These new items are more costly than their original offerings, but operators have found that the benefits in marketing, brand image and customer satisfaction more than outweigh the costs.

The distributors that supply these operators have their own set of challenges. Increased operator demand for custom, pre-prepared menu items has led to a huge proliferation in the number of SKU's that a distributor carries. Many of these items require expensive frozen and chilled distribution. This increase in SKU's is placing pressure on distributors' margins, which were already low to begin with. To combat this trend, distributors are embracing category management tools that have long been used in the grocery retail industry. They are also placing more emphasis on their house and private label products, which earn higher margins and have comparable or better product quality to national brands. Lastly, distributors prefer shelf-stable items that allow them to access new product opportunities in new channels. For example, there is a large opportunity for selling liquid dairy products through vending machines, over 100

¹ Menu Preparation and Serving Trends Impacting the Foodservice Industry, Technomic Inc., June 2004.

² Menu Preparation and Serving Trends Impacting the Foodservice Industry, Technomic Inc., June 2004.

million incremental gallons!³ However, many distributors struggle to sell chilled milk profitably in the vending channel as it was originally designed to handle shelf-stable items like soft drinks, candy and cigarettes.

What are the implications for manufacturers? Escalating operator and distributor demands will place increasing pressure on their costs. Many manufacturers have already restructured, “value engineered” their products and outsourced production. In short, they have taken as much of the costs out of their system as possible. In order to achieve future growth and market success, they must start to focus on meaningful product innovation that will solve operator issues and differentiate them from other branded and private label competitors. They must not only review the logical product solutions that they can deliver, but also how to produce and market these products with increasing financial hurdles.

So how can packaging assist manufacturers and operators to deliver innovation? First, packaging can deliver better function through better openings and graphics. It is not enough to have an ingredient statement on your label. How about a graphic display of how to use the product properly? Also, too many packages require knives, scissors and can openers. These options represent safety hazards for operators. Additionally, is the product in the right size package to minimize waste and maximize product quality? Many foodservice products are only available in “institutional” sizes that may work for very high volume operations, but are too big for quality-oriented commercial restaurants. Additionally, there are food processing technologies, such as aseptic processing, that allow for extended product shelf-life, up to one year, without requiring preservatives or other ingredients that compromise product quality. Lastly, the right packaging technology can save distribution costs. Many value-added products are shipped frozen or chilled. Some of these products could be shipped ambient, eliminating supply chain costs and improving inventory management flexibility.

As manufacturers move forward with considering new package options. It is important that they do not view packaging in isolation. Rather, they must view packaging in the context of a complete system. Before picking a packaging solution, manufacturers must ask themselves:

- What product do we want to deliver?
- How will we differentiate this product from others?
- What food processing technology will deliver the best product?
- What type of foodservice operators will use this product?
- What package options for this product have the most appeal with the target operators?
- How will this product be sold and distributed?
- Will this product achieve the required financial targets?

Clearly, this is a comprehensive and time-consuming process, but manufacturers do not have to execute it on their own. Many suppliers have capabilities to assist in many phases of product development and package evaluation processes, cutting costs and improving manufacturers’ time to market. For example, ingredient suppliers can assist with product formulations and understanding flavor trends. Processing and packaging suppliers can provide advice on the pros

³ [Multi-Channel Milk Vending Test](#), MilkPEP, 2003.

and cons of different food processing technologies. Many of them have pilot production facilities that help understand the best product formulation and processing parameters. They will also participate in market research projects to validate new product concepts. Lastly, they can refer manufacturers to contract packing facilities that will make the product to their specifications if they do not wish to invest in their own production plant.

The key is to select suppliers who are interested in building long-term partnerships and mutually profitable sales growth. These suppliers will continually look for ways to build your business. They have accumulated knowledge on food processing and value chain dynamics. They may have access to successful product concepts from other countries outside the US. They may not be the cheapest option, but they will deliver far more value!

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