SYSKO’S JOURNEY FROM SUPPLY CHAIN TO VALUE CHAIN: 2008-2009 FINAL REPORT

RESULTS AND LESSONS LEARNED FROM THE NATIONAL GOOD FOOD NETWORK / SYSKO CORPORATION PILOT PROJECT TO SOURCE AND SELL GOOD FOOD

The Wallace Center supports entrepreneurs and communities as they build a new, 21st century food system that is healthier for people, the environment, and the economy. The Center builds and strengthens links in the emerging chain of businesses and civic efforts focused on making good food — healthy, green, fair, affordable food — an everyday reality in every community. Winrock International is a nonprofit organization that works with people in the United States and around the world to empower the disadvantaged, increase economic opportunity, and sustain natural resources.
INTRODUCTION

Nearly 10 years ago, the $40 billion Sysco Corporation recognized a serious weakness in its business model. Like other food industry giants, Sysco achieved a leading position by offering its restaurant and institutional customers, such as schools and hospitals, the lowest prices and the most convenient service.

But the industry’s successful focus on constantly streamlining, to gain more and more efficiencies, had resulted in a very narrow product selection that many customers were questioning and rejecting. Restaurant chefs and school cafeterias, for example, were beginning to ask for products that Sysco could no longer source easily as a result of an industrial approach to food sourcing and distribution that Sysco and other major food companies helped to develop.

For example, most of Sysco’s 185 regional operating units in the United States offer only two varieties of apple: Red Delicious and Golden Delicious. The reason is partly the industry’s drive for cost-efficiency, which has reduced choices across the commercial food system. Apples and many other products offered through major food service channels are down to those few varieties that can withstand thousands of miles of travel and still sell at a low price because they are produced in large volume.

But restaurants, schools and other food service customers now want more flavor, variety and meaningful connections to the people and places behind their food than this far-flung system can provide. They want fresh-picked apples and more types from which to choose. They want the story behind the apple — about its heritage and its farmer, for example. They want to support local farms and local economies. They also want more accountability regarding labor and environmental practices.

Rick Schnieders, Sysco’s chief executive officer from 2003 to 2009, recognized this demand shift and realized two things:

1. Requests for more product diversity, and more connection to the people and places that produce the food, would not go away; in fact, the demand for what he called “romance, memory, and trust” was on course, and has grown significantly.
2. The best way to keep and gain customers would be for Sysco to find new ways to source from farms and other food businesses that could help the company meet customer demand for greater variety and stronger social and environmental values behind the food they buy.

Thus began Sysco’s journey from its mainline food supply chain model to a new values-based food supply chain, or value chain, approach to sourcing, selling, and distributing food. According to research in this emerging field, new food value chains differ from traditional food supply chains in that value chains:

- Operate as a series of win-win strategic relationships through the supply chain from farm to table rather than win-lose, interchangeable business transactions.
- Differentiate products by attributes that traditional supply chains do not typically monitor or promote, such as the environmental and social benefits of producers’ practices.

This report documents the results, lessons learned, and strategies developed in the second and final year of a pilot project that Sysco began in 2008 in partnership with the Wallace Center at Winrock International and the National Good Food Network, which is housed at the Wallace Center. Through the National Good Food Network and the Wallace Center, Sysco draws on the experience and knowledge of businesses and organizations across the country also working to build more choice and fairness into the commercial food system.

Sysco’s goal is to develop a strategic plan for the procurement and distribution of foods that meet new consumer demand for knowing where food comes from, who produced it, and how it was produced. The desired outcome is a replicable business plan, which independent operating companies that manage different regions across Sysco’s system can use as they respond to this new reality.

Sysco’s Grand Rapids operating company now offers 12 varieties of apples from environmentally certified Michigan farms, instead of just two varieties previously. This fact is one indicator of the success of the pilot project and Sysco’s overall strategy to change how it sources food. Sysco operating companies
involved in the pilot have gained new customers because of the new choices they are now offering. Other Sysco regions are beginning to replicate this new, evolving values-based food supply chain business model. Farms are also investing in the growth of their own businesses as Sysco opens this new channel for local and sustainably produced foods.

**EXECUTIVE SUMMARY**

With results for 2009 now in, it’s clear that in just two years Sysco has made progress advancing the concept of a values-based food supply chain while also using components of the concept, particularly “local” and “sustainable,” to produce significant results.

The company landed major accounts in the pilot regions of Grand Rapids and Kansas City because those operating companies were able to offer food produced in environmentally sensitive ways by area farms. Sysco Grand Rapids won the entire Michigan State University account because it was able to help that institution respond to public and student demand for MSU to source more food from Michigan farms. One of several new local farm products Sysco brought to MSU included major sales for a Michigan lettuce producer and a fresh produce processor in the region who worked together to supply chopped and bagged lettuce within 30 hours of harvest. Similarly, Sysco Kansas City won the business of the Kansas University system and the Hallmark Cards Corporation, based in Kansas City, because of the distributor’s local and sustainable food focus.

Sysco has found that it works to start with what the market understands and what Sysco can reliably provide – local and sustainably produced food. This starting point gets new sales underway for Sysco and the farms involved. These sales become the evidence that builds confidence and opportunities in the program. It also builds a platform upon which to start the business conversation about other values that Sysco wants to integrate. In 2009, for example, Sysco developed a concise, one-page document, called Guiding Principles: A Value-Chain Partnership Charter, to communicate its philosophy around values-based food supply chains and its commitment to transforming its operations.

Sales success is the way to start that conversation, and the two-year pilot did just that. Local product movement was up more than 30 percent during the 2009 growing season across the two original pilot regions: Sysco Grand Rapids and Sysco Kansas City. Key to this profitable growth was regional branding, early and motivated sales efforts, and innovation with new pack sizes and products. In addition to growth in the original pilot regions, the program successfully launched a new region in 2009: Sysco Chicago.

The program’s growth in 2009 is particular significant because of a number of challenges during that time. With the general economic downturn of the United States, the nation collectively tightened its belt, hunkered down, and families began eating out much less, all of which had a particularly negative effect on the foodservice sector. In addition, the summer was delayed and cool, creating additional challenges with the production and sourcing of many produce category items. Lastly, food scares in late 2008 shifted considerable attention to working with growers to understand and comply with changing food safety certification requirements.

Sysco’s investment in learning how to build a values-based food supply chain has resulted in new sales and customers, which has made the business difference over two challenging years in the industry. These results came from getting out in the field and getting to know and understand local suppliers. It also came from innovative approaches to managing the challenges and opportunities that the new suppliers presented.

In Grand Rapids, for example, Sysco was successful in handling new varieties of apples, and the local farms’ varying volumes and availability, by developing new pack sizes for different kinds of customers. More convenience stores and hotels are buying apples now because the new pack sizes fit their limited inventory capacity better. In Kansas City, the challenge of incorporating local foods from many Amish and Mennonite farms resulted in the nation’s first successful food safety audits of such farms. The experience is informing industry and legislative negotiations over how to develop new food safety regulations so they do not overwhelm small farm budgets and operations.

Going forward, Sysco sees the model spreading through its system because the program has resulted in the framework of a new business model for additional
operating companies to work with. The pilot regions are also experienced enough now to serve as models and mentors.

Strategically, Sysco sees the opportunity to link regional operating companies’ local food efforts so that they not only share information but also suppliers. Growers now working with Sysco Grand Rapids could easily supply Sysco Detroit and even Sysco Indianapolis, depending on the farm’s scope and location. Sharing information and contacts can help each operating company build its local portfolio, which is important for keeping product flowing and for keeping customers and sales staff excited and engaged. This engagement, again, is the first step to building the values-based food supply chain relationships and the awareness of “Good Food” that will transform the system.

**BACKGROUND**

The Sysco/Wallace partnership designed its two-year “Success for Family Farms” project around the flexibility of Sysco’s 185 independent regional operating companies. It chose two regional units that were ready and willing to innovate as the project’s pilot locations. They are Sysco Grand Rapids, which distributes to customers in western Michigan and northern Indiana, and Sysco Kansas City, which covers the state of Kansas and the Missouri regions east of Kansas City to Columbia and south to Branson.

Sysco Grand Rapids and Sysco Kansas City continued as regional pilots in the project’s second year, 2009. A third operating company, Sysco Chicago, became involved in 2009 as a test of how the emerging model could extend to another region.

Sysco’s corporate office was directly involved, providing project direction and oversight, as well as grant funding for project needs. Craig Watson, Sysco’s vice president for quality assurance and agricultural sustainability, led the effort.

The Wallace Center and the National Good Food Network provided key financial and in-kind support, including the guidance of Joe Colyn of Originz, LLC. Mr. Colyn is a supply chain expert who served as the national project leader for the Sysco/Wallace partnership. The National Good Food Network also contributed expertise through its ability to leverage the knowledge and experience of a wide range of businesses and organizations working to transform the nation’s food system so that more “Good Food” gets to more people.

In their work together, Sysco, the Wallace Center, and the National Good Food Network use the widely adopted W.K. Kellogg Foundation definition of “Good Food” as “healthy, green, fair, and affordable.” Good Food, under this definition, is wholesome and nutritious, is produced in an environmentally responsible manner, comes with justice for farm workers and others involved in the system, and is accessible and affordable for all.

**2008 Experience**

Each of the regional pilots formed teams that included a Good Food advocate serving as project lead, a Sysco operating company lead, and a lead from an organization serving as the logistical partner, or product aggregator.

Members of the Grand Rapids team:
- Good Food advocate – Joe Colyn, principle of Originz, LLC and consultant to the National Good Food Network.
- Sysco lead – Denis Jennisch, produce manager, Sysco Grand Rapids.
- Aggregator lead – Gary Lyon, co-owner of Walsma & Lyons, fresh produce broker/distributor.

Members of the Kansas City team:
- Good Food advocate – Otavio Silva, administrator of Buy Fresh Buy Local - Kansas City.
- Sysco lead – Pat Cipolla, produce director, Sysco Kansas City.
- Aggregator lead – Diana Endicott, owner of Good Natured Family Farms, a marketing cooperative of more than 100 family farm members. During the
two-year pilot, Good Natured Family Farms handled aggregation of product while the cooperative’s primary customer, the regional Balls Food Stores grocery chain, provided distribution services through its central warehouse.

Both teams undertook in 2008 to develop approaches for increasing purchases and sales of Good Food. The primary emphasis is on moving local fresh produce with some experimentation in processed foods and meats, dairy, and eggs.

Project teams found market traction by focusing on an initial subset of Good Food attributes: Local and sustainable. They worked also to integrate other elements of Good Food into their values-based food supply chain development (healthy, green, fair, affordable). Yet the most executable approach to start was to work with what they could find — local producers, engaged in sustainable practices — and what they could clearly and reliably communicate through the chain.

Grand Rapids 2008

In the Sysco Grand Rapids market, the project contributed 10 percent in 2008 to the total volume of sales, or 5,354 incremental cases, and a $92,000 increase in incremental sales. These sales were especially valuable in a crop year constrained by a slow start and an early finish, and by total volume on products listed the previous year down by approximately 18 percent. The project’s movement of new locally sourced, sustainably produced items mitigated the downside of this tough year to only a nine percent drop in case volume.

The 2008 Sysco Grand Rapids effort involved 16 producers and 100 items from the operating company’s existing base of Michigan and Indiana suppliers. The operating company also added six new farm suppliers and 18 new products.

Much of the Sysco Grand Rapids success came from Produce Manager Denis Jennisch’s idea to start communicating the operating company’s focus on local by simply differentiating products it had always sourced from Michigan and northern Indiana but had never labeled as such. Key to this idea was to develop a brand that fit into normal food service ordering systems. Sysco Grand Rapids launched the label, or brand, of MIPROD (Michigan-produced) on order forms to distinguish local products from Michigan and Indiana. In addition, Sysco Grand Rapids began to feature local growers, both existing and new suppliers, in sales materials and at its annual food show for customers.

Kansas City 2008

In 2008, Sysco Kansas City achieved 2,600 cases of incremental produce volume from 76 new local family farm suppliers, which contributed more than $50,000 in incremental sales. In addition to fresh produce, Sysco Kansas City and Good Natured Family Farms test-marketed ‘value-added’ products like cheese, honey, and tofu to extend sales of locally sourced, sustainably produced items beyond the traditional growing season.

Sysco Kansas City did not have the advantage of a strong existing base of local wholesale suppliers of fresh produce and other items. Unlike Grand Rapids, which sits in the middle of a veritable Midwest fruit and vegetable belt, Kansas City region is more livestock and grains country. These products involve a significant amount of processing, which puts them even more into a global, anonymous supply chain than perishable fresh produce.

But Sysco Kansas City worked around its supply limitation by partnering with Good Natured Family Farms, a cooperative of more than 100 small family farms within 200 miles of the Kansas City metropolitan area. As an umbrella brand for the individual farms and groups of farms involved, Good Natured Family Farms operates with a set of standards around sustainable agriculture, humane livestock care, and community commitment. Good Natured Family Farms is well known at Kansas City’s Hen House Markets and some Price Chopper supermarkets, where the regional Balls Food Stores company features the local food cooperative in its marketing.

Altogether, the 2008 start of the “Success for Family Farms” project in Grand Rapids and Kansas City produced a significant amount of on-the-ground learning and innovation, while also achieving early win-win results for growers and for Sysco.
2009 RESULTS

The second year of the project produced positive results and growth in both Grand Rapids and Kansas City with local product movement up more than 30 percent over 2008 in the key summer and early fall growing seasons. In both regions the expansion of the local produce offerings through new items contributed significantly to profitable growth.

In the new pilot region of Chicago, major accomplishments included developing the Lower Lakes™ brand and related marketing collateral. Unfortunately a late launch, just as local produce started hitting the market, prevented strong engagement from customers. The bright spot was the traction that a number of marketing associates gained with some key customers, setting the stage for stronger results in the future.

Table 1 summarizes the overall results for the project in 2009 by volume and sales with the best information available late in the year:

<table>
<thead>
<tr>
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<th>Grand Rapids MIPROD</th>
<th>Chicago Lower Lakes</th>
<th>Kansas City Buy Fresh</th>
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<td>Total Family Farms Engaged</td>
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<td>60-75</td>
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<td>New Farms Engaged in 2009</td>
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Chicago 2009

The primary focus of 2009 was to extend the project to Sysco Chicago, a much larger operating company with a significant produce business. In January the Sysco/Wallace partnership introduced the concept to Sysco Chicago. By mid-March Sysco Chicago had committed to creating the new Lower Lakes™ branding for produce from within 250 miles of Des Plaines, Illinois, which includes farms in nearby Ohio, Michigan, and Wisconsin, as well as Illinois.

The people of Chicago consider these Great Lakes states as their “backyard,” situated as the city is at the southern end of Lake Michigan. Sysco Chicago came up with the Lower Lakes™ name based on this cultural and geographic connection.

Chicago’s Lower Lakes™ branding strategy is like Grand Rapids’ MIPROD brand on food service ordering materials, which proved successful in 2008. MIPROD distinguishes products from Michigan and Indiana growers, many of which had always supplied Sysco Grand Rapids. Similarly, many of the growers that Sysco Chicago would designate as Lower Lakes™ are wholesale suppliers from the region whose produce would have flowed into Sysco Chicago’s inventory anyway.

The purpose of the brands is to help the operating companies stop co-mingling regional and imported products, both in inventory and sales efforts. By segregating regional produce, the operating companies can both respond to local-only requests and position Sysco more competitively as a distributor that offers local foods. The benefit to farms — both existing suppliers and those that Sysco recruits to broaden its local Good Food selection — comes through new competitiveness with produce from all over the country and potentially stronger sales as customers and Sysco commit to local.
Chicago’s Lower Lakes™ program launched late in May 2009, just as the local season for fresh produce was beginning. While timely for having inventory of summer product available, it was too late for many customers to consider it in their purchasing; they had completed summer menu planning earlier in the spring. A number of marketing associates and district sales managers, however, leveraged the Lower Lakes™ program to start moving local branded produce to highly interested customers.

Originally Sysco Chicago planned to offer only local produce when available; that is, customers would only receive local, Lower Lakes™ branded green beans and carrots, for example, when available. Sales would revert to imported items when local was not available. But without the time to communicate this labeling step effectively, Sysco Chicago decided to offer both its normal Sysco Universal Product Code (SUPC) items along with the Lower Lakes™ branded SUPCs. In many cases the normal SUPC was pulling from the same regional suppliers as the Lower Lakes™ SUPCs, so local produce was frequently moving through both.

For the pilot 2009 year, however, Sysco Chicago tracked only those instances in which customers specifically ordered regional produce through the Lower Lakes™ branded SUPCs. Orders of Lower Lakes™ branded products nevertheless amounted to 3.55 percent for the growing season despite the lack of pre-season marketing effort. Initial data also shows gross profit on those items was relatively high, or 114 percent of margins on corresponding unbranded items, due largely to new specialty organic items and less discounting of Lower Lakes™ branded products.

Like the Grand Rapids and Kansas City pilots, the Chicago pilot assembled a team that brought additional expertise and capacity into the project. Members of the Chicago team:

- Good Food advocate – Joe Colyn, principle of Originz, LLC and consultant to the National Good Food Network.
- Sysco lead – Chris Eliopulos, produce director, Sysco Chicago.
- Aggregator lead – Todd DeWaard, produce manager, Superior Sales, fresh produce broker/distributor.

Grand Rapids 2009

A key strategy for Sysco Grand Rapids in 2009 was to build upon its successful use in 2008 of its new MIPROD brand to designate products from Michigan and northern Indiana. The food service brand allows Sysco Grand Rapids to track products coming from regional suppliers separately from products it imports from other places. The MIPROD label on the order form also allows customers to specifically choose local.

In 2009, Sysco Grand Rapids saw major sales growth because of a decision to offer only MIPROD branded options when available. The regional operating company also gained sales through innovations that came as a result of new types of local products and customer needs related to using local foods.

Overall, Sysco Grand Rapids sold 36.7 percent more in case volume and 47.4 percent more in dollars, which is a reflection of new, higher-value items. These MIPROD sales were up to almost 80,000 cases for the 12 months ending October 31, 2009, from less than 60,000 cases in 2008. Total MIPROD sales climbed to nearly $1.2 million, an increase of more than $300,000 over 2008. The branded local products represented 4.5 percent of total annual produce cases in a year when the category was down 7 percent overall.

The step of offering only MIPROD branded items when available succeeded in large part because Sysco Grand Rapids started communicating the change well before the growing season started. This was critical for avoiding customer confusion. Management worked in advance with sales staff. The marketing associates further relayed the change to customers in time for them to consider it in their menu development and purchasing plans.
Another factor in sales growth at Sysco Grand Rapids was the addition of new items and new pack sizes. Mr. Jennisch and the sales staff sought to accommodate the diversity of items and volumes coming in from new farm connections and to seize the opportunity to meet new customer needs.

For example, Sysco Grand Rapids expanded its apple offerings to 12 varieties in 2009, up from just two varieties in 2007 – Red Delicious and Golden Delicious.

Sysco Grand Rapids packed three apple varieties in the traditional 40-pound case. It also developed a new 16-pound case for eight varieties, which is easier for convenience stores to carry and which has resulted in more healthy food next to candy bars and chips, for example. Sysco Grand Rapids also introduced a new 20-pound variety-pack apple case in collaboration with the Michigan Apple Committee and River Ridge Packing for use by hotels in their lobbies. The effort has built a new market niche for Sysco.

Another example of new products and pack sizes is locally produced and chopped Romaine lettuce, which came about because Michigan State University dining halls were worried about their staff’s lack of knife skills. Sysco Grand Rapids responded by working with Michigan lettuce producer Van Dyk Farms and produce packer Freshway Foods in northwest Ohio to offer three pack sizes of washed and chopped Romaine.

Because of the local supplier and regional processor, Sysco Grand Rapids was able to keep the lettuce fresh despite the extra steps; the value-added lettuce packs made it from farm to cafeteria in about 30 hours. This effort contributed to Sysco Grand Rapids landing the entire MSU account in 2009 after the university had previously split the business between Sysco and another food service provider.

Finally, Sysco Grand Rapids had planned in 2009 to spend more time cultivating grower relationships and broader values-based food supply chain understanding and commitment. However, nationwide food contamination recalls in 2009 prompted the industry to suddenly call for suppliers to meet certain food safety certifications. Many small and mid-size farms were not prepared for the new paperwork and significant compliance cost. Sysco Grand Rapids diverted a great deal of attention to working with growers so they could better understand and meet new food safety requirements.

Kansas City 2009
In 2009, the Sysco Kansas City program expanded its marketing of produce and other items from the Good Natured Family Farms cooperative, a base of some 150 farms in the region that market together under a common brand. The project built additional Buy Fresh/Buy Local marketing into the effort to further promote the cooperative’s products.

Buy Fresh/Buy Local sales of local produce for Sysco Kansas City from July through November 2009 were $44,093. New items contributed significantly to the Sysco Kansas City program, with 844 cases of vine ripe tomatoes representing 66 percent of new item volume and more than 25 percent of the total.

Like in Grand Rapids, case volume purchases of local foods were up approximately 35 percent, although quantities were lower because the region does not have the broad base of local commercial fruit and vegetable farms to provide the volume that Sysco Grand Rapids and Sysco Chicago enjoy.

Two constraints on the Sysco Kansas City program were a poor growing season and challenges with distribution. Again, because the Kansas City region is not as strong in local commercial produce, it is difficult to find intermediary businesses that can provide needed logistical support between the farm and Sysco’s system. In Grand Rapids and Chicago, companies that already buy and sell wholesale produce are well established. Sysco Grand Rapids uses the Walsma & Lyons brokerage to aggregate local foods and distribute them to restaurants, hospitals and other food service customers under Sysco’s MIPROD brand. Sysco Chicago uses Superior Sales, another well-established distributor, to aggregate and move the local products it sells under the new Lower Lakes™ brand.
The Sysco Kansas City program in 2009 again used the best distribution option available for aggregating and distributing the local products it sought to differentiate in the market. That option was the retail warehouse of the Balls Foods Stores chain, a company that features the broad line Good Natured Family Farms brand in its Hen House Markets and some Price Chopper supermarkets. The partnership between Good Natured Family Farms and Balls Foods Stores works well for retail distribution to the chain’s stores. But the needs of food service are different, and the program will need a food service-focused distributor to grow.

The food service supply chain requires produce to be packed and ready for the end customer before it goes on the truck; the food service trucker cannot sort and grade produce for sale like a grocery store produce manager. Designed around retail, the Balls Foods Stores distribution facility could not meet the pack or timing requirements of Sysco Kansas City consistently. This affected availability and customer service, and in some situations resulted in sub-par product. The experience made it clear there is a need for food service-specific aggregation and logistics. Good Natured Family Farms is working to establish such a facility for 2010. The cooperative is working with urban churches and neighborhood groups to redevelop property in an underserved area and employ local residents.

One of several bright spots in the Sysco Kansas City program is the fact that Kansas University elected in 2009 to start using Sysco because of its partnership with Good Natured Family Farms and the National Good Food Network. Volume in 2009 was limited, but the relationship provides a foundation for future sales of local produce and other categories, such as meats, dairy, and eggs.

Another bright spot was the nationally significant achievement by the Kansas City team of accomplishing commercial food safety certification for four Amish and Mennonite farms. Some 30 percent of Good Natured Family Farms’ products come from farms in these religious communities, which refrain from using electricity, tractors and other modern conveniences. New food safety requirements from large-scale buyers, such as Sysco, made commercial food safety certification of local farms a high priority.

The Kansas City team attacked this issue by focusing on the most challenging farms first: Amish and Mennonite farms, which regulators see as posing potentially higher risk for E. coli contamination because they integrate horses and other farm animals into their daily operations. The Good Natured Family Farms cooperative and Buy Fresh/Buy Local Kansas City program worked directly with the Amish and Mennonite farms to develop needed food safety plans. The cooperative also covered the fees involved, approximately $1,000 per farm for the inspection alone. The communities received guidance and support from Sysco staff. As a result of this achievement in Kansas City, Sysco Grand Rapids is in dialogue with the Michigan Amish community leadership to begin developing a 2010 food safety training and certification program.

**2009 LEARNING**

Success and challenges in 2009 prove that the road to Sysco’s ultimate goal is a long one that starts with small steps. By taking these initial steps, however, Sysco has seen that it can also build significant momentum and progress toward its long-term goal.

One of the key changes that Sysco has made is the seemingly small but actually big step of labeling products from existing regional suppliers as “local.” Re-branding existing products and suppliers could seem counter to the intent of the Sysco/Wallace partnership, which is largely to make a place in the market for farms and products that the current system excludes. Yet Chicago’s Lower Lakes™ brand, Grand Rapids’ MIPROD brand, and Kansas City’s Buy Fresh/Buy Local offerings are part of realizing that intent.

Now, instead of saying “no” when motivated customers ask for local products, the three regions involved in the Sysco/Wallace partnership can say “yes.” They can say “yes” because they are investing in the new ordering codes, communication with sales staff and customers, branding, inventory management, new supplier prospecting, and more that is required to make the local differentiation happen. The new line of local products also gives marketing associates something new to sell, something that no other broad line distributor yet offers.

This key step of segregating and branding local products has increased the pilot regions’ sales, as well as their customer base. In turn, this branding step has
also improved the market outlook for regional farms, both those already supplying Sysco and those Sysco will need to keep recruiting in order to build its local selection.

The pilot proved that the assumption behind Sysco’s strategy was correct: Customers want to know more about their food and to support local, conscientious businesses.

The project also confirmed in 2009 that the local branding component is fundamental to the new business model that the Sysco/Wallace partnership is developing. Now with this cornerstone in place, Sysco continues to ask how it can:

- Build on its new “local” differentiation to deliver the full range of Good Food values — healthy, green, fair and affordable food — to local communities.
- Continue moving away from a purely transactional business model toward its ultimate goal of a new relationship-based chain that ensures the long-term success and diversity of family farming.

Key learning to address these questions includes:

**Communication with Customers**

Introducing a new brand requires time to build understanding among the sales force and time for these marketing associates to introduce it to customers. With time to interact about the program, both sales staff and customers have an opportunity to communicate values; that is, the reasons why Sysco is taking this step, why customers are interested, and what else is desired or possible. Taking this time, sales staff and customers build relationships that invest them in the program’s growth.

In evaluation interviews, Sysco learned that many marketing associates and customers were concerned about the state of the economy and cited the importance of buying power and keeping their dollars within the state. Across the board, both marketing associates and customers felt like the program was a step in the right direction. They also said they would like the program improved upon in the future with more participating growers, greater product variety, and tours of the growing sites themselves.

Year two in Grand Rapids, for example, validated that this kind of interest, along with more familiarity with the new products and the new program, will result in growth of the program. Grand Rapids saw the “ownership” of the program shift from the main office’s produce and marketing department to genuine enthusiasm among the sales staff for the MIPROD branding. They “made it happen” in 2009 after seeing the successes of year one and the improvements brought to the program with new items and strong support from program leadership.

Yet major challenges exist with the local branding strategy. The seasonality of local products, and varying quantities and quality through the season, are new to marketing associates and customers. In the past, the operating companies involved in the project could seamlessly switch to carrots or squash from other states and countries if needed. And they still will do this to keep customers supplied. But now more customers need to know the switch is happening because more of them have planned their menus around local.

To make it work well over time, therefore, Sysco must provide marketing associates and customers with more, ongoing information about when the local product will be available, how much of it will be available, and how long it will last.

Potential next steps for effective branding and communication with sales staff and customers include:

- **New information and new channels for communicating local product availability.** As one Sysco Chicago marketing associate noted: “It would be helpful to have a public website from Sysco to tell which products are coming in, and from where and which grower. Customers could check the supply..."
before placing an order, instead of just looking at a flyer without up-to-date information.”

- **More progress in the use of unique product codes for the local items.** The branded Sysco Universal Product Code (SUPC) is critical in distinguishing local items from like items that come from outside the region. It also allows for effective tracking of the product, which is needed for reliable, ongoing communication with the sales force and with customers. Additional SUPCs, however, present a significant information management challenge that, over time, will require Sysco to develop a new approach, such as a prefix or suffix to existing SUPCs, to designate local without taxing the tracking system with too many codes.

- **More opportunities for marketing associates and customers to learn about the local farms and the local products.** The relationship building helps them understand and appreciate how weather, for example, can affect quality and availability. Sysco has already had success with a variety of approaches, including marketing materials that feature the farm and family stories behind the products, product availability calendars to communicate seasonality, and including local growers in Sysco food shows for customers. Enhancing these strategies is important along with building more personal interaction opportunities, such as visits by chefs and marketing associates to farms.

### Intermediary Position of Aggregators

The aggregator/distributor function is a key logistical component in food supply chains. Sysco often relies on third party aggregators to fill orders. The aggregator sources, consolidates, and transports loads of products. Aggregators also handle quality assurance and assume liability.

The aggregator/distributor is especially needed for the new program around sourcing and selling local, sustainably produced food. They handle the collection and movement of products that are new, and potentially incongruent (i.e. unconventional packaging, quantities, etc.) to Sysco’s systems. Instead of Sysco taking on the extra logistics, the aggregator applies its expertise and capacity to the challenge.

This need for a third-party aggregator for the overall program has, however, caused some consternation among local farms that have long supplied Sysco directly, without going through an aggregator. But that was when their products were commingled with products from elsewhere with no need for special branded attention. Now they are part of a new brand of products that Sysco needs to manage as a group.

Some farms view aggregators as a way to build a relationship with Sysco, while others who previously had a direct relationship with Sysco see aggregators as creating more distance between themselves and Sysco. A couple of farmers, for example, reported in interviews that their initial contact with Sysco had led them to believe they would be dealing directly with Sysco in the future. Yet they later learned that they would be working through an aggregator and would have little to no contact directly with Sysco.

The challenge for Sysco is to prevent the intermediary position of the third-party aggregator from creating more distance between the farmer and Sysco buyers. Trusting relationships must develop all along the way if the supply chain is to transform into a values-based food supply chain.

A lesson from 2009 in this case is to continue and increase the focus on building those relationships. It is important that all three players—Sysco, the aggregator, and the farmer—come together at the beginning of the venture and periodically thereafter to talk through how the program and relationships will work and why. The program can also strengthen the chain by investing in both the sales staff and customers getting to know the farms.

Another aggregator/distributor issue, as noted earlier in discussion of Kansas City’s results, is how well the aggregator and/or distributor knows and can accommodate the food service business. In Kansas City’s case, distribution through Balls Foods Stores was more geared to retail than to food service, which posed some quality and customer service issues. The aggregator/distributor for Sysco needs to be one with capacity that matches food service needs.

### Farm Fortunes

At the base of the supply chain is the farmer. The Sysco/Wallace partnership is largely about keeping that farm strong so it can be in the business of providing the broader product variety and product qualities that Sysco customers want. In addition to great taste and new varieties, customers also value farm businesses that protect water quality around farmland and provide fair wages for the farm’s employees.
Building a successful values-based food supply chain means building consciousness throughout Sysco’s system about the farm suppliers and their needs. That includes the story behind who they are, where they live, what they do, and how they benefit from the program.

All of the 16 growers that Sysco Chicago promoted with its Lower Lakes™ brand are family farm operations. The smallest and newest to wholesale marketing is Bob Borchardt’s 20-acre Harvest Moon Organic farm in Wisconsin. One of the largest is fifth-generation Buurma Farms, which now has more than 20 family members involved in its multi-state operation.

Mr. Borchardt’s experience illustrates the benefits of the Sysco/Wallace partnership to some farms that are stretched between on-farm work and off-farm sales. Like many smaller entrepreneurial farms, Harvest Moon Organic sells at farmers markets, through the farm’s Community Supported Agriculture model, and direct to restaurants. But the time and cost of servicing those restaurants had become an issue; the trip to and from Chicago to supply downtown restaurants amounts to a full day away from the farm.

The opportunity to sell through Sysco, which already called on Mr. Borchardt’s restaurant clients, worked well. His products were among the only local organic items that Sysco offered in 2009, so the customers knew they were getting the same products they always had. His delivery trip is now down to two hours total for traveling to a nearby Sysco distribution center.

In Grand Rapids the program added four growers in 2009 to expand the local supplier base to 20. New farmers in the program included Van Dyk Farms, a third-generation family farm specializing in the production of Romaine lettuce. Also new is TLC Tomato, a small hydroponic specialty tomato grower that brought a small volume of heirloom tomatoes to the program for the first time, meeting the needs of some white tablecloth establishments. In total the 20 growers are stewards of approximately 10,000 acres of Michigan land practicing sound environmental management.

In Kansas City, 25 more farms from the Good Natured Family Farms cooperative entered into the wholesale Sysco channel. Kansas City offers a unique grower base, centered on Amish and Mennonite communities in northwest Missouri. Through the communities’ leaders, Good Natured Family farms has gained access to a supply base that is strong, yet not without its challenges. Among the key hurdles in 2009 was achieving certification under the USDA’s Good Agricultural Practices and Good Handling Practices standards. The first few farmers did achieve certification. One said that with the certification, “there could be more recognition of our way of living and dealing with family farms working together.”

Overall, evaluation interviews indicate that farmers are earning the same or higher profits through the Sysco program than they are through other wholesale avenues, which most of them use. Most farmers perceive some added advantage to working with Sysco, based on an expectation of increasing volumes and/or greater commitment to local growers in the future.

Two farmers interviewed found being part of the program particularly advantageous. “It has given us the ability to nearly double our sales for the year. It’s helped us to increase overall profits and volumes significantly. We are looking at expanding acreage within the next six to nine months, expanding into a totally new additional facility in southern Michigan just to provide additional product for Sysco and some other customers.” This new facility will result in 10 additional jobs.

Consistently, however, farmers say they would like to have more communication, whether with Sysco or the aggregators, throughout the year. More information about what the farmer can expect with regard to volumes and consistency is important, for example, so they can better plan production.

**STRATEGIES**

 Sysco launched its two-year Success for Family Farms project not only to improve its long-term bottom line but also to change practices throughout the food service industry. As the food service category leader, Sysco intends to assure a long-term future for family farms, and supply of Good Food, by pioneering a new
business model.

That business model is taking shape now after the experiences of the past two years in three pilot regions. The ability of these regions to “act locally,” because they are independent operating companies, has been a key part of Sysco’s ability to innovate.

Key components of the model that is emerging are:

- Branding of the local food offering.
- Strong executive management leadership to support the category manager in marketing and merchandising activities.
- Grower profiles that communicate the farm story to sales staff and customers.
- Opportunities for Sysco staff, as well as customers, to develop personal relationships with farmers.
- Systems support for local category management and tracking.
- A dynamic aggregator that can manage supply, risk, and the day-to-day details of produce.
- Availability calendars and Sysco programs to support timely menu planning and integration of local food by the customers/chefs.

This model is ready for other Sysco operating companies to try. In the meantime, the Chicago, Grand Rapids and Kansas City operating companies are ready to build upon the foundations they have built. The next objectives in these three pilot regions are to:

1. Move more volume of existing locally branded items to more of the customer base.
2. Bring in more new items, including items in categories beyond produce, such as meats, dairy, and eggs.

Finally, another strategy in development is for the pilot regions to collaborate with each other, and with additional nearby Sysco regions, to build the local supplier base and extend season availability.

Working together Sysco regions could make local last longer. They could do it by drawing on suppliers from northern Michigan to southern Ohio to keep fresh strawberries from family farms, for example, on their product lists beyond the short time that strawberries are available from farmers immediately nearby.

In addition to extending the season, relationships and collaboration among operating companies is one way to both share the learning and share the contacts. One consideration would be to extend the existing program from the Chicago/Grand Rapids area out to the broader Upper Midwest region. Current Michigan, Ohio, and Indiana growers could in some cases also supply Sysco’s Columbus, Cincinnati and Indianapolis operating companies to get them off to a quick start. Sysco Detroit already leverages some of Grand Rapid’s MIPROD products into its market on the east side of Michigan.

The map on the next page illustrates the potential for extending the program by working with the proximity of other Sysco operating companies, such as Columbus, Cincinnati, Detroit, Indianapolis and possibly New York. Another, Sysco Central Illinois, was engaged in some local sourcing in 2009 and could be engaged further.

Through the National Good Food Network, Sysco is also fielding calls from organizations working with local farm suppliers in Iowa and the Carolinas, which could mesh well with Sysco operating companies in those states.
CONCLUSION

The Sysco Corporation’s investment in developing a new values-based food supply chain approach is revolutionizing the way Sysco operating companies do business.

Working through three local operating companies, the partnership has completed a two-year pilot project that has produced the framework of a new business model and strategies for replicating it across Sysco’s national network of 185 independent operating companies. Success in the pilot and in future replication is based on a team approach, with insights and expertise from Good Food leaders across the country supporting on-the-ground innovation by Sysco staff and third-party aggregators.

A key component is Sysco’s partnership with the National Good Food Network through the Wallace Center at Winrock International. The partnership opens channels of information and assistance from people, businesses and organizations involved in transforming the food system.

With publication of program reports and ongoing involvement with the National Good Food Network, Sysco is working not only to improve its own bottom line but also to help the entire industry begin shifting to a more sustainable way of doing business.

The initiative started after Sysco realized it could not meet new and changing customer demands without family farms, and their more local, sustainably raised products. The conventional food supply chain deals with farms as interchangeable suppliers, and has resulted in a dramatic decline in family farm numbers and rural community vitality because that chain rewards only high-volume, low-cost suppliers. Yet customers care more and more about the people and places
behind their food, and the improved nutritional profiles and other qualities that can come with food raised more for quality than quantity. That means Sysco must care about these farm suppliers, too, and find a way to bring their products and preserve their multi-dimensional value through the supply chain to its customers.

Ultimately, and as seen in the two-year pilot program, Sysco’s effort to build a values-based food supply chain results in new access for small and medium size farms to conventional food markets. This access and new recognition of the value of the farms’ products — from environmental stewardship to the great taste of heirloom varieties — leads to new jobs in the farms’ communities and more Good Food on the market.

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