

## SUPPLY CHAIN

# Why Sourcing Local Food Is So Hard for Restaurants

by Nicole Torres

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As globalization has created longer and increasingly complex food supply chains, there has been a concomitant surge in demand for locally-sourced food. Some companies have ridden this wave. Chipotle, for example, differentiated itself from

other restaurants by building a brand around a promise of fresh and local ingredients. But after the chain was linked to outbreaks of E. coli, norovirus, and salmonella last year, its emphasis on local sourcing was called into question.

It turns out that a shorter supply chain doesn't necessarily mean a less complicated one; in fact, working with smaller local producers can bring its own set of challenges, particularly when it comes to food safety testing and preparation. Chipotle has ramped up efforts to improve food safety since then, reportedly hiring two leading food safety experts and investing \$10 million in helping smaller suppliers meet their updated safety standards.

I recently spoke to Professor John Quelch, who teaches at Harvard Business School and at Harvard's T.H. Chan School of Public Health, about the major challenges of local sourcing, how companies can manage them, and what food supply chains will look like in the future. He has written a case study about food safety testing and is the author of *All Business Is Local*. Our conversation has been edited for length and clarity.

**HBR: Chipotle emphasized a shorter supply chain and sourcing from local growers. However, you've made the point that even though there are fewer intermediaries between supplier and restaurant, its operations can actually end up being *more* complex and fragmented, and therefore harder to control for safety. How can this be?**

QUELCH: Chipotle is sourcing from multiple suppliers around the country. Comparatively speaking, a company like McDonald's or KFC sources all of its chicken from maybe five or six large suppliers, such as Tyson Foods and other companies. Tyson chickens would be shipped direct from their plants frozen or refrigerated to McDonald's or KFC distribution centers and outlets nationwide. McDonald's or KFC

might have their own inspectors on-site at the largest chicken farms and processing centers. They would also impose strict quality controls in each supplier's plants, and testing procedures would also be laid down.

Chipotle aimed to differentiate itself from other quick-serve restaurants on the basis of using local ingredients and local sourcing of its products. The implication was, "Our food is fresher, we're not going to be shipping ingredients from one side of the country to another."

However, local sourcing adds complexity, increases risk and fragments the supply chain. Even if you have a standard quality control procedure for all of your sources, you're not going to be able to monitor them on-site at every location. You're going to have to put your trust in the suppliers to live up to the expectations laid down in the quality control guidelines.

### **Why isn't that sufficient when it comes to local suppliers?**

Companies like Tyson have decades of experience in testing and making sure their products are safe. They're producing massive quantities in a single plant. If there's a food safety problem, it's going to risk the shutdown of a significant portion of their production capacity and that can have serious profit consequences. As a result, their sophistication and experience in terms of food testing is very good.

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Of course, there are many concerns over how they treat animals at their plants. These are legitimate concerns from an animal rights point of view. But in terms of public health, these companies have a lot

at stake financially and reputationally if any one of their plants has to be taken offline because of a food safety problem.

On the other hand, most local suppliers lack substantial experience in testing their products. They don't have as much as experience with USDA inspection procedures and their own internal inspection systems may not be as well-developed and operationally as reliable as those at the Tysons of the world. And they are often not large enough to justify a customer placing an individual inspector on-site or even in organizing regular inspections.

**Do you have any advice to offer companies like Chipotle that want to source more of their ingredients from these smaller suppliers but don't have the resources to control for safety?**

Number one: If you are doing local sourcing, you have to bake into your cost structure a higher percentage of sales allowance for food safety and ingredient testing than if you are sourcing nationally from a few big suppliers. Obviously, that can have a bearing on your retail price, but, in general, consumers expect to pay more for locally-sourced products, particularly if they have other attributes, such as being organic or natural.

For example, if you dine at a farm-to-table restaurant, you expect to pay a little bit more even though the supply chain is shorter. You realize that the industrial efficiency of the Tyson chicken plant that results in pretty low prices is not going to be replicated at a friendly local organic farm. Nor would you want it to be. Fortunately for suppliers and retailers, interested consumers expect to pay higher prices for the locally sourced, farm-to-table product.

Number two: We now have a number of very competent independent food testing companies, such as the NutriSciences Company, which I recently wrote a case study about, to whom you can outsource your requirements. You should use those. You should not, as a small supplier or as a regional restaurant, feel as though you have to develop the food testing internally.

**Shouldn't advancing technologies, in agriculture and operations, also be able to help here?**

Yes. First, the regulatory authorities both in Europe and the U.S. are requiring more sophisticated scientific tests. This is another reason for outsourcing because only the large food safety testing consulting firms have the resources to invest in the latest equipment needed to run the more sensitive scientific tests that are now required.

The second answer relates to tracking particular food products from the source. The Food Safety Modernization Act, the FSMA, which President Obama signed in 2011, put more focus on preventing food safety problems by testing ingredients at the point-of-origin rather than testing finished products. These days, many ingredients are joined together in a single food product from so many sources all over the world that, in the case of a problem, it can be difficult and time-consuming to identify which ingredient was the culprit. Chipotle, to my knowledge has still not identified the ingredient that was the source of its problem.

It is now possible, through technology, to tag the steak you buy in the supermarket from the specific animal and farm it originated from, and track it through the food chain so that, if there is a problem with the meat source, it should be traceable fairly quickly.

**Supply chain transparency, especially when it comes to provenance, has definitely**

**become a big deal over the past couple of years.**

Say a quick serve restaurant chain proves to be the common source of illness among a group of consumers, you want to hone in on the source as fast as possible; otherwise, the rest of your supply chain will be in jeopardy and at risk of shutdown pending discovery of where the problem started. This represents a huge business risk. So investing in a tracking system is essential.

Companies and regulators are doing a lot here. For example, the Irish Food Board has been investing in tracking technology—and they now require food companies to have traceability systems in place—because they’re trying to justify a premium price of Irish meat and other Irish foods on the basis of the implicit reliability and reduced risk of it having this tracking system in place.

**Will tomorrow’s food companies, and other companies in general, be increasingly global, increasingly local, or some hybrid of the two?**

As in many other categories, you will see a blend of global and local. There will continue to be a passion and a demand among a minority of consumers for locally produced, farm-to-table food—that trend will continue. The more people who have the disposable income to be able to pay the price differential, and the more informed consumers become, the more that trend will grow.

Of course, some consumers will not be able to afford the higher price of local organic food for every meal. But when they enjoy a special meal, they may prefer to go out to a farm-to-table restaurant or have the organic chicken at home. In other words, it’s not an either/or proposition. It’s a matter of the balance between the local and the global that will be selected by each household.

It's worth mentioning the recent news regarding the attempted takeover of Monsanto by Bayer, that's a response to the increased competition in the overall chemical/agricultural fertilizer space prompted by DuPont's merger with Dow.

### **Are we seeing greater consolidation in the industry?**

Many consumers are price sensitive, and they are looking for safe food at a reasonable price. To the extent that global mergers and acquisitions can add to the efficiency of the food supply and deliver competitive price points to consumers, they will support those companies.

What you're seeing is that, at every stage of the supply chain, there's increased consolidation. So if Bayer and Monsanto merge and Dow and DuPont merge, then further down the line, you can expect more mergers of food processing companies that make the branded products that are closer to the end consumer. They'll want to consolidate their buying power, so that they don't get shortchanged when they have to pay higher prices to the new, larger consolidated companies back up the supply chain. In economics, this is called countervailing power, whereby mergers at one stage in the value chain prompt mergers at the next stage and the preceding stage.

### **What are the biggest challenges and opportunities companies are facing today when it comes to their operations in supply chains?**

One thing we have not touched upon is the issue of sustainability in the global supply chain – and here I'm referring to the degree to which a company follows policies that are not only conducive to environmental protection, but also take account of the health, welfare and safety of the workers at the farms that supply the suppliers that supply you.

For example, look at the palm oil industry. There are not only environmental concerns and health related concerns associated with palm oil as a product, but there are also supply chain-related concerns around the welfare of workers who are in the fields in Malaysia harvesting the palm oil. Increasingly, consumers of all kinds (but especially Millennials) are becoming concerned about these considerations – the environmental and sustainability footprint of the brands which they purchase at the grocery store.

This presents an opportunity for local sourcing companies, because they don't have to explain themselves to the same degree, and at the same time, an added challenge for large multinational companies that are sourcing globally.

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