



# food factory

For those thinking about commissaries, there are key considerations to weigh before diving into the food production and distribution business.

BY JAY GORDON

**F**ifteen years ago, John Egnor helped design a cook-chill system for a Las Vegas casino. Today, that facility is producing cook-chill products 24/7/365 for five other casinos. As a result of centralized food production, the parent company of these casinos was able to reduce labor costs by 150 full-time equivalent employees. Given an average employee salary plus benefits of \$50,000 each, the annual savings exceeded \$7.5 million.

“On an investment of \$1.5 million, their ROI [return on investment] was measured in months, not years,” said Egnor, who leads a team of 30 designers as president of JEM Associates, a Pleasantville, N.J.-based foodservice design consultancy.

That kind of ROI may be exceptional, but as the costs of real estate, fuel and labor shoot sky-high, the potential for savings and efficiency is driving many other operators, from grocery and convenience stores to restaurants and campus dining facilities, to consider central kitchens and commissaries as part of their foodservice strategy.

“There is a huge market going forward for outsourcing [food production] to commissaries that cook to spec and inventory the products for you,” Egnor said. “In the next 30 years, kitchens will be half the size they are today, because so much food production will be done off-site.”

However, the labor, infrastructure and expertise required to run a commissary or central kitchen should cause all food operators to consider every other option before pursuing this strategy, according to Mark Godward, president of SRE, an oper-



ations engineering consultancy serving the supermarket and convenience channels.

“Operating a central kitchen or commissary is tremendously complex,” he said. “Essentially, you’re managing a food factory, and that

is far different from operating a restaurant or a store. Are you taking products to a commissary that a supplier could do just as well, or even better?”

Operators must truly be able to answer objectively whether the items that will be prepared at the central kitchen are truly unique.

“People will say, ‘But I have a unique marinara or Alfredo sauce.’ I admire that, but a lot of suppliers can make that recipe to your satisfaction,” Godward said. “They may be supplying the chopped onions and canned tomatoes for that sauce already, and they have the labor and equipment and systems in place to do all of the prep work in a more systematic way, and often they are investing in automation to do it more efficiently. You need to have enough truly unique items to justify a commissary.”

Another reality check for retailers considering a commissary is whether they possess the expertise required to run it properly. Godward has seen companies invest big bucks in a commissary and then pay a manager from one of the retail locations an extra 20 percent to run it. That’s a big red flag.

“You’re talking about a highly sophisticated production and distribution facility, and you need to develop or hire specialized management to run it right,” Godward said. “If you’re starting a commissary but can’t afford to hire someone to manage it for you, then maybe you shouldn’t be in the commissary business.”

## SUPPLY-CHAIN PERSPECTIVE

In his 25-plus years of experience developing supply-chain strategies for retail fresh food operations, Maurice Minno of

consulting company MPM Group has discovered an important truth: There is no easy answer as to whether it makes sense for a retailer to operate its own central commissary.

The founding principal of MPM Group, Minno has an abundance of past retail experience. He was director of U.S. foodservice for BP plc; vice president of retail fresh food for Starbucks Corp.; vice president of merchandising /foodservice for Circle K Stores Inc.; and senior director of fresh foods marketing and procurement and director of foodservice branded concepts for Wawa Inc.

Minno’s firsthand experience has helped him to identify key considerations for retailers to ponder before developing a commissary strategy:

• **What fresh products will come through the commissary?** The sales volume of the products you expect to bring through the commissary can change the economics of the decision dramatically. Let’s say you want to commission fresh bakery items. With a shelf life of only a day or two, those items will require you to deliver to stores from the commissary more frequently than other items — perhaps even daily. On the other hand, if you are willing to use frozen dough and bake the products in the stores, those products could be warehouse at the commissary and delivered with other items. It also may make sense to source certain menu items, such as salads and fruit, through other supplier specialists. “A supplier partner can bring in salads and fruit, and take the pressure off the central kitchen to buy and warehouse raw ingredients, manage the Hazard Analysis and Critical Control Point (HACCP) requirements for fresh fruits and vegetables and deal with labor and packaging issues,” Minno said. “The central facility can still be the place where those items are received, warehoused and delivered to the stores, but they don’t have to make everything there. You can have other companies make certain products



## performance checklist

Whether you choose to operate your own commissary or rely on a third party to provide fresh products for you, MPM Group’s Maurice Minno has identified several key performance indicators that can help ensure the operation is doing what it’s supposed to do:

**Facility standards:** The commissary needs to have established (and agreed to) standards for receiving, storage, production, ingredient handling, packaging controls, temperature monitoring,

product testing, sanitation/hygiene, security and pest control.

**Reporting capabilities:** Can the facility report back to you on key metrics? For example, can they tell you whether they adhered to temperature monitoring requirements from facility to truck to store? How about delivery window compliance?

**Fill rate:** Did they fill the order for each store completely and accurately? **Out-of-stocks:** How often is the facility out of stock on key items?

**Non-authorized product:** Suppliers sometimes bring in products that you did not authorize or specify. Do you have a way to identify these products and keep them from getting onto the shelves in your stores?

**Quality assurance:** Let’s say the sprouts on your salads are recalled because of a potential health issue. How does the commissary or supplier notify you, and what process do they have for retrieving that product? —JG

## commissary drives "red zone" offense

Kwik Trip Inc. calls it the "red zone" — that high-traffic area in the front of the store where customers can find hot and cold foods ranging from sandwiches to pizza, salads to bakery items, coffee, fountain drinks and fresh fruit such as apples, bananas and oranges. It is a space that accounts for well over half of the LaCrosse, Wis.-based convenience store chain's non-tobacco inside sales, and an even greater percentage of profits. And it's made possible, in large part, by Kwik Trip's brand-new commissary.

At more than 60,000 square feet, the commissary is 10 times larger than the chain's previous facility, yet it employs just 20 more people than the old one did. These 100 workers produce millions of sandwiches, salads and other foodservice items for Kwik Trip's 330 stores in Wisconsin, Minnesota and Iowa.

The \$15 million investment Kwik Trip made in the new commissary gives the chain enough production capacity to more than double its current sales; since the new commissary opened, Kwik Trip has expanded its in-store pizza and soup programs, for

example, and more take-home meals are in development. But that's only part of the reason the chain enlarged the commissary to such a great extent.

"We did it so we would have room to grow, but we also planned for some excess capacity so we could sell some of the products we make to outsiders," said Steve Loehr, vice president of support operations. "We just added an outside sales person to sell soups, sandwiches, pizza and other items. We'll be able to take someone else's recipe and make it for them."

Kwik Trip took the exact same approach with another new facility on the same property as the commissary — a freestanding

Steve Loehr, Kwik Trip's vice president of support operations, spends some time at the commissary overseeing salad prep.

food-safety lab that Kwik Trip will operate in conjunction with Marshfield Food Safety LLC, an Evansville, Ind.-based testing service. "Previously, everything we made had to be sent by courier to the lab to check for food safety and quality," said Loehr. "Now we do that on site, so we can test products more frequently and get results more quickly."

Even though Kwik Trip will do five times as many tests as before, Loehr added, the food safety lab, like the commissary, has excess capacity built in so that the chain can sell food-safety and quality-control testing services to other food manufacturers and retailers. The investments in the commissary and testing lab indicate the important role foodservice plays in Kwik Trip's overall retail strategy. The chain is vertically integrated — it also operates its own dairy, bakery, warehouse and truck fleet — which allows it to deliver products to stores at a lower landed cost than many outside suppliers.

Loehr said Kwik Trip currently is adding 15 to 20 stores per year, up from approximately 10 new stores annually just a few years ago. "Our foodservice profits help make that possible," Loehr added.

—JG



and then leverage them into your supply chain."

• **How will those products be packaged?** How do you want your retail locations to receive products from the commissary? Individually wrapped? Packaged in bulk? In "kits" for sandwich or salad making? In what state of readiness do you need it to be delivered to the stores? In most convenience or on-the-go locations, food is often packaged for sale so that there is minimal handling of fresh product at the store level. While there is no right or wrong answer, the type of packaging used will affect commissary production and delivery.

• **What are the distribution characteristics of your retail network?** What is the delivery radius from the central kitchen? What are the route sizes and the average delivery time per stop? All of these factors will affect the condition and shelf life of the products for retail sale. Ideally, the central kitchen should be located as close to the store network as possible — within a day's drive — and there should be as many stores on each route as possible. This will depend on what is being delivered and what the driver has to do at each stop. Is he just dropping product, or is he responsible for taking out old product and resetting the cases?

Minno said he has also used the "hub and spoke" distribution system (first made popular by package delivery companies such as FedEx) to extend the reach of the delivery network.

When he was at Circle K, for example, the chain had a central facility in Phoenix, but also a smaller hub in Tucson, more than two hours away. Trucks loaded with sandwiches and other items sorted by delivery route were dispatched from Phoenix, then cross-docked — without being repacked or re-handled — to delivery trucks in Tucson for distribution to the stores in that market. By doing so, Minno said, "we were able to extend the distribution range without the huge burden of creating a whole new production center."

• **What are store-level unit and sales volumes?** The speed with which you are turning inventory at store level will determine how frequently those items need to be replenished. If drop

sizes are small, can you leverage other products that are currently being delivered to the stores by other suppliers? Direct-store delivery (DSD) suppliers may be delivering certain items that could be bundled with the items being delivered from the commissary to make drop sizes more economical. What about proprietary products like energy drinks or water? "You have to challenge the traditional routing and distribution structure to support a fresh-food offer," Minno said.

• **Where is the best place in the fresh food supply chain for products to be prepared?** Your answers to the first four questions will determine the answer to this one. "Again, you need to consider alternate ways to deliver a fresh, appealing product without committing to the expertise and infrastructure required for a central kitchen facility," Minno said. "You can push the sourcing and production of some items back into the supply chain and use other strategic partners."

// The question becomes, what business model are you capable of operating, and what do you want to commit to in order to deliver the freshest products possible? //

Maurice Minno, MPM Group

fied atmosphere packaging (MAP) that will stay absolutely fresh for up to 28 days from the day they are packaged. But is that fresh to the consumer? "Across the fresh-food supply chain there are various definitions of what is considered 'fresh,'" Minno said. "The question becomes, what business model are you capable of operating, and what do you want to commit to in order to deliver the freshest products possible?"

A Subway or Quiznos wouldn't dream of offering a packaged sandwich. "That's a different business model that they have resourced and supported and are capable of managing," Minno said. "They have the systems and processes and the physical infrastructure in place, and it's all geared around a made-to-order sandwich."

False starts can be extremely costly in the food business, so Minno advised retailers to be honest with themselves about the business model they choose. Are you in this business for the long term? Are you going to resource it for the long term? Does it have to be your own facility, which offers maximum control, but also maximum cost and headache? Or can you rely on suppliers, or perhaps a third-party commissary partner?

If you answer these questions honestly, and truly understand the cost and complexity of running a commissary, it gives you both a great inside benchmark and a strong framework for talking with strategic partners.

"This is a very different business than what most retailers are accustomed to," Minno said. "You need a long-term perspective to operate a commissary."

OTGF

# More Profit, Less Trouble

And Great Food That Keeps Customers Coming Back.



Plan on making money for a long time with a NEMCO™ roller grill—built and warranty-backed for optimum cooking performance that rolls on and on, virtually maintenance-free.

## Think NEMCO!



Call for a FREE catalog or go online today to find these and a hundred other NEMCO equipment solutions.

**NEMCO**  
FOOD EQUIPMENT

"Exceeding your expectations"

800.782.6761  
nemcofoodequip.com