

ANDREW HALE FEINSTEIN AND JOHN M. STEFANELLI



PURCHASING

Selection and Procurement for the Hospitality Industry

FIFTH EDITION



Andrew Hale Feinstein

John M. Stefanelli

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0-471-38935-1 Aug

612 p. 25 cm

Feinstein, Andrew Hale
New York, NY
wiley
© 2002



JOHN WILEY & SONS, INC.

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Published simultaneously in Canada.

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Library of Congress Cataloging-in-Publication Data:

Feinstein, Andrew Hale.

Purchasing : selection and procurement for the hospitality industry / Andrew Hale Feinstein, John M. Stefanelli.—5th ed.

p. cm.

J.M. Stefanelli's name appeared first in the previous ed., 4th ed., c1997.

Includes index.

ISBN 0-471-38933-1 (cloth : alk. paper)

1. Hospitality industry—Purchasing. I. Stefanelli, John M. II. Stefanelli, John M. Purchasing. III. Title.

TX911.3.P8 F45 2001

647.95'068'7—dc21

2001026909

Printed in the United States of America.

10 9 8 7 6 5 4 3 2 1

PREFACE

In 1976, after consulting with Dr. Tom Powers, Consulting Editor for the Wiley Service Management Series, John Stefanelli undertook the tremendous task of writing a purchasing textbook that combines generally accepted purchasing principles and procedures with some description of the products and services the typical hospitality enterprise normally purchased. Critics lauded *Purchasing: Selection and Procurement for the Hospitality Industry* as an excellent investment and resource for hospitality managers and students who would like a hands-on approach to understanding the purchasing function.

Since this first edition of the book, many hospitality educators have adopted this approach to purchasing instruction. Many colleagues, both in education and industry, continue to find that it is valuable for their students, most of whom will not become purchasing agents but will be involved with some phase of purchasing throughout their careers. As one colleague put it, this book is a purchasing book for non-purchasing agents. The book provides a comprehensive and understandable view of the activity, as well as its relationship to the management of a successful operation.

The fifth edition of *Purchasing: Selection and Procurement for the Hospitality Industry* maintains the original objectives: It includes discussions of the purchasing activity and product information from a management perspective. Each chapter has been revised to include the most current concepts available. In essence, great care has been taken to maintain the integrity and readability of the original text while modernizing the discussions of purchasing techniques and practices currently being employed in the hospitality industry. Although many of the theoretical underpinnings of the purchasing function have not changed in decades—product distribution channels and forces that affect the price of goods remain relatively unchanged, and specifications and purchase orders are still required to order these goods—the use of technology in implementing and maintaining effective purchasing policies and procedures has changed drastically. To inform readers about these changes, technology applications in the purchasing function are now discussed throughout the majority of the first 16 chapters that encompass purchasing principles.

■ WHAT'S NEW FOR THE FIFTH EDITION

Many important changes and additions have been made to *Purchasing: Selection and Procurement for the Hospitality Industry* to make the text even more useful. Among the most significant changes are:

- The discussion of technology has been brought to the forefront of the text. Besides moving the technology chapter from the end of the purchasing principles chapters to the beginning, most principle chapters now discuss and illustrate the use of technology in context.
- Sidebars have been included in several chapters to discuss technology companies and their applications to the purchasing function.
- References at the end of each chapter have been updated to provide readers with current materials to supplement their readings.
- Dozens of links to key websites throughout the text provide readers with access to current information.
- Dozens of completely revised figures provide clear illustrations and photographs of concepts, companies, and products relating to the purchasing function.
- Revised questions and problems section provides discussion topics and experiential exercises to increase participation and active learning.
- A completely revised Instructor's Manual (0-471-20771-3) that provides a several syllabi examples, teaching suggestions, test questions, PowerPoint slides, and term projects is available to qualified instructors through their Wiley sales representative.
- A companion website provides readers with further information on dozens of topics affecting the purchasing function.
- The National Restaurant Association Education Foundation, in consultation with the authors, has developed a Student Workbook for its ProMgmt. certificate program. The workbook contains exercises and a study outline for each chapter, and a practice test of 80 multiple-choice questions. This practice test will assist students in preparing for the certificate examinations. In addition, an Instructor's Guide (0-471-20882-5) is available to complement and highlight the information in the textbook and Student Workbook.

ACKNOWLEDGMENTS

The authors would like to thank the following individuals for their continued assistance in developing and refining this text:

UNLV Graduate Students: Mehmet Erdem, Joycelina Santos, Anna Valadiva,
and Greg Dunn
Laurie Kendrick of Wild Sage Cafe
Connie Cahill and Alice Heinz of The American Egg Board
Karen Combs and Ilona Cox of Daydots International
Dave and Doug Coon at Anderson Dairy
Mark Watkins at <http://www.sheffieldplaters.com/>
Ty Buel and Bill Cockroft of Mammoth Mountain Ski Area
Greg Koontz at the Foodservice Symposium
Tim Riedel of Riedel Marketing Group
Judy Feliz at UNLV
Danny Campbell at the MGM Grand
Rachael Buzetti at the Nevada Beef Council
Butcher Bob at UNR
Rino Armeni at Southern Wine and Spirits
Jennifer Robinson and Matthew Brimhall at Purchase Pro
Julie Day of Vollmer
Thomas M. Rosenberger of Community College of Southern Nevada
Stu Stein of California Culinary Academy
Margie Ferree Jones of California State Polytechnic University, Pomona
JoAnna Turteltaub and Tzviya Siegman of John Wiley and Sons, Inc.

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1

THE CONCEPTS OF SELECTION AND PROCUREMENT

THE PURPOSE OF THIS CHAPTER

After reading this chapter, you should be able to:

- Define the terms *purchasing*, *selection*, and *procurement*.
- Identify commercial and noncommercial hospitality operations.
- Explain how technology and e-commerce applications are changing in the hospitality industry.

■ INTRODUCTION

To most hospitality students, the term “purchasing” means paying for an item or service. This conveys a far too restrictive meaning because it fails to suggest the complete scope of the buying function. Perhaps the terms “selection” and “procurement” are better.

“Selection” can be defined as choosing from among various alternatives on various levels. For example, a buyer can select from among several competing brands of beef, a specific quality of beef, a particular beef supplier, and a fresh or processed beef product. One buyer may not perform all these activities—make all these choices—at one time. But he or she will be involved in most of them at some level.

“Procurement,” as opposed to “selection,” can be defined as an orderly, systematic exchange between a seller and a buyer. It is the process of obtaining goods and services, including all of the activities associated with determining the types of products needed, making purchases, receiving and storing shipments, and administering purchase contracts.

Most people see procurement as the nuts and bolts of the buyer's job. Once buyers know what they want, they set about locating the best suppliers that fit their needs. Buyers then attempt to order the correct amounts of products or services at the appropriate times, see to it that shipments are timely, and ensure that the delivered items meet company requirements. A host of related duties surround these activities: being on the lookout for new items and new ideas, learning the production needs of other departments, appraising the reliability of suppliers, and so on.

Few operations have full-time buyers; most have managers and supervisors who do the buying in addition to their other duties. To these employees, buying means more than the term "procurement" by itself implies. These employees must also be aware of the relationship between purchasing and other related activities in the hospitality operation.

Because there are so few full-time purchasing agents in our field, a textbook that focuses solely on hospitality buying principles and procedures or product identification, although useful to some, would unnecessarily restrict operating managers and supervisors in hospitality. In other words, it is not enough to know how to procure beef. The typical operating manager must also consider what form of beef to purchase, as well as whether or not beef should even be on the menu.

Today, operating managers must also deal with technology-driven procurement applications that have revolutionized how buyers and suppliers procure products and services from sausage to steak. This technology enables purchasing managers to complete complex procurement functions with a simple click of the mouse. Most of these types of functions are taking place through an electronic process of selling and procuring products or services over computer networks; this process is known as electronic commerce, or "e-commerce." We will discuss technology applications as they relate to purchasing in more detail in Chapter 2.

One of the hospitality industry's major technology companies focusing on developing business-to-business electronic commerce (B2B e-commerce) applications is Las Vegas-based PurchasePro. Over the past several years, this company has successfully revolutionized the way procurement is conducted through the development of e-commerce applications that harness the power of the Internet. E-commerce applications that focus on procurement activities are sometimes referred to as "e-procurement applications." Many hospitality businesses now use Internet- or Web-based e-procurement applications. Other major companies developing B2B e-commerce applications include CommerceOne, SAPMarkets, Ariba, VerticalNet, and Sterling Commerce.

To better explain how technology has radically changed selection and procurement in the hospitality industry, we will explore new software, hardware, and e-procurement applications throughout this textbook. We will also examine the effect and ramifications this technology has had on operating managers who are directly involved in hospitality selection and procurement functions.

■ TYPES OF HOSPITALITY OPERATIONS

The hospitality industry includes three major ^{Fig} segments. The first is the commercial segment—the profit-oriented companies. The second is the institutional segment—those ^{facilities} that are operated on a break-even basis. The third is the military segment—those operations that include ^{troop} feeding and housing, as well as the various military clubs and military exchanges that exist within military installations. The second and third segments are collectively referred to as “noncommercial” hospitality operations (see Figure 1.1).

The following types of operations are generally considered part of the commercial segment:

1. Hotels
2. Motels
3. Casinos
4. Resorts
5. Lodges
6. Spas
7. Quick-service (limited-service) restaurants
8. Table-service (full-service) restaurants
9. Snack bars
10. Food courts
11. Taverns, lounges, and bars
12. Cafeterias
13. Buffets
14. On-premise caterers

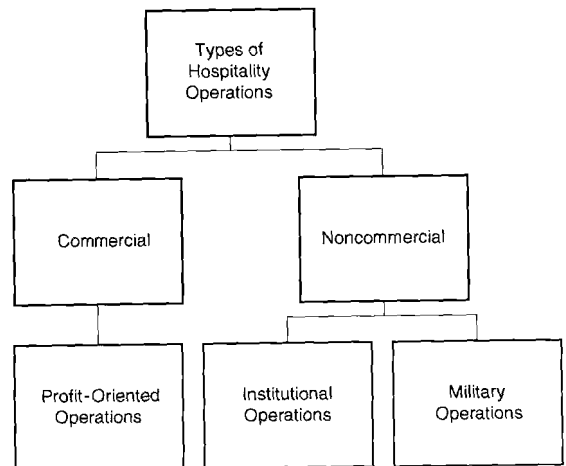


FIGURE 1.1. A major segment outline of the hospitality industry.

15. Off-premise caterers
16. Vending machine companies
17. Ice cream parlors and stands
18. In-transit food services (e.g., cruise ships and airlines)
19. Contract food-service companies, which typically operate in plants, office buildings, day care facilities, senior care facilities, schools, recreation centers, hospitals, and sports centers
20. Convenience stores with food services
21. Supermarkets with food services
22. Department stores and discount stores with food services

The following types of operations are generally considered part of the non-commercial division of the hospitality industry:

1. Employee feeding operations
2. Public and parochial elementary- and secondary-school food services
3. College and university dormitories and food services
4. Transportation food services, such as the Meals on Wheels program
5. Hospitals
6. Extended-care facilities
7. Clubs
8. Self-operated community centers, such as senior centers and day care centers
9. Military installations
10. Camps
11. Public institutions, such as the food services in some government facilities
12. Adult communities
13. Correctional facilities
14. Religious facilities
15. Shelters

■ MAJOR PURCHASING DISTINCTIONS IN HOSPITALITY-OPERATION TYPES

In Chapter 6, we offer a more detailed discussion of the distinctions in the purchasing function that the industry makes among the various types of hospitality operations. Here in this introductory chapter, however, we attempt only to provide you with sufficient understanding to carry you through to Chapter 6. When we discuss hospitality operations in their traditional mode, we think first of the independent operation. In addition, those in the trade usually arrange the independent operations according to size: the small, medium, and large independents. The other major type of hospitality operation includes the multiunits and the franchises, which we discuss second.

THE INDEPENDENT OPERATION

The small independent is typically run by an owner-manager who usually does all of the buying for the business. He or she also oversees the other related purchasing activities, such as receiving deliveries and paying the bills.

The medium independent generally involves more than one person in the purchasing function. Usually, the general manager coordinates the various activities that other management personnel perform. For instance, he or she typically coordinates the purchases of department heads, such as the dining room manager who needs ashtrays, the bartender who requires liquor, and the chef who needs food. The general manager also oversees other related purchasing activities.

The large independent, such as a hotel, follows the purchasing function in much the same way the medium independent does, except that it may employ a full-time buyer. This buyer purchases for the various production departments, such as housekeeping, maintenance, engineering, and food service. Alternately, a designated employee from each of these departments may be doing the purchasing; for example, a hotel may employ an executive steward to order supplies and to supervise the sanitation crew. Most familiar is the large independent operation that has a full-time food buyer, a beverage buyer, and an equipment and other nonfood supplies buyer. A purchasing vice president or an equivalent official may or may not supervise these three buyers. The buyers are, almost certainly, supervised by a management person.

In the past, small- and medium-sized businesses may have had a tough time competing in the same markets as larger companies. This is mainly because these smaller businesses have had to pay higher prices for many of the products that they procure because they are not afforded the same discounts as large companies. However, the evolution of the Internet and the introduction of e-commerce technology, e-commerce enablers or e-businesses (companies that develop e-commerce applications) have leveled the playing field by enabling these smaller companies to procure products at more competitive prices and to compete with hospitality giants like never before.

By interacting on a universal e-commerce platform—much like a global, electronic marketplace where products can be selected and procured online—buyers can select and procure quality goods and services from top-tier suppliers and distributors anywhere in the world. These e-commerce platforms are referred to as “e-marketplaces.” Simultaneously, small- to medium-sized suppliers now have the opportunity to sell their products to any size hospitality operation. Companies involved in developing hospitality-related e-marketplaces include Pro-Purchasing Systems (PPS), Foodtrader.com, Foodservice.com, Restaurantpro, and Freshnex.com.

An idea addressed more completely in Chapter 6 is co-op buying, a concept that enjoys popularity among some independent hospitality operations, particularly some food services. As the phrase implies, co-op buying is a system whereby hospitality operations come together to achieve savings through the purchase of food and supplies in bulk. Either the operations rotate the purchasing duties

PROPURCHASING SYSTEMS

ProPurchasing Systems (PPS) is not a procurement office: it does not buy or sell products (see Figure 1.2). PPS negotiates contracts on the behalf of independent hotels, management companies, resorts, and REITs. PPS has more than 100 vendor-direct programs for the following categories: Food Distribution, Operating Supplies & Equipment, Services and Utilities, Telecommunications, and Furniture, Fixtures, and

Equipment (FFE). Each hotel that enrolls into PPS receives a PPS Purchasing Guide that includes the names, the telephone numbers, and a small description of the programs negotiated on their behalf. Additionally, customers are offered the PPS Marketplace via the browser. Each hotel pays a participation fee that enables it to have access to PPS's pricing and the guide.

PRO PURCHASING SYSTEMS

WELCOME!

Network Logon

Name

Password

Logon

Click Here For Our Complimentary Analysis

business to business

Marketplace

Advanced Purchasing Solutions

There is no secret behind the concept of aggregate buying to achieve lower prices. At Pro Purchasing Systems, we are committed to improving the hospitality purchasing process through our electronic commerce solution and strategic relationships with suppliers. Our experience and achievement in hospitality management provide the foundation for creating comprehensive programs that immediately impact your bottom line.

Office DEPOT
Low Price Guarantee

american
HOTEL REGISTER COMPANY

Alliant
FOODSERVICE

MAINTENANCE WAREHOUSE

AMERICAN EXPRESS
Business Travel Services

Nothing to Lose, Everything to Gain

Although aggregate buying is easily justified through cost savings, we understand that getting started can be a challenge for busy managers. PPS invests the time in developing strategic programs that work within and enhance your current business systems. You can enjoy immediate results because access to our preferred supplier network becomes available to you right away.

Let us calculate the savings your property will realize through our proven programs. Our complimentary analysis compares your current prices with those negotiated by PPS.

Thursday, April 12, 2001 8:02:47 AM Pacific Time

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FIGURE 1.2. The Pro Purchasing Systems homepage. Purchase Pro and Pro Purchasing are registered servicemarks of Purchase Pro.com, Inc. Courtesy of Pro Purchasing Systems.

among themselves, or they hire someone to coordinate all of the purchasing for them. For instance, some lodging properties belong to referral groups that provide, among other things, some central purchasing activities.

E-commerce has also touched co-op buying. Companies are currently aggregating purchasing processes for properties throughout the country. For example, PPS, a division of PurchasePro, enables small hotels throughout the country to come together and experience the same type of purchasing clout as a property with hundreds of locations throughout the world.

These aggregate purchasing companies do not buy or sell products. Instead, they negotiate contracts on behalf of independent hotels, management companies, resorts, and Real Estate Investment Trusts (REITs). Each hotel enrolling in this “electronic co-op” might receive a purchasing guide that includes the names, telephone numbers, and a brief description of the programs negotiated on their behalf. Hotels can then access an e-commerce marketplace—or portal—through any Internet Service Provider (ISP). Typically, each hotel pays a participation fee that provides access to the aggregate purchasing companies’ pricing.

THE MULTIUNITS AND FRANCHISES

The second major category of hospitality operations in the purchasing function includes the multiunit companies and franchises. These interlocking operations organize their purchasing somewhat differently from that found in independent organizations. One usually finds, when examining a chain of hospitals, for example, a centrally located vice president of purchasing. Moreover, the company may maintain one or more central commissaries or distribution warehouses. The managers of the company-owned outlets receive supplies from the central distribution points under the authority of the vice president of purchasing. But these managers may also do a minimal amount of purchasing from local or national suppliers that this officer approves; in some cases the managers may order from approved suppliers without consulting the vice president of purchasing, or they may order everything from a central commissary.

In company-owned unit outlets, the internal organization for buying, particularly for restaurants, stipulates that the unit manager order most products from the central commissary or approved suppliers. The unit managers may, however, have the authority to make a few purchases on their own, such as a cleaning service or a locally produced beer. But when the unit managers do this sort of purchasing, they nevertheless need to follow company policies and procedures.

In company-owned, large-hotel properties, a system similar to that of the large independents generally exists. That is, the vice president of purchasing at corporate headquarters may draw up some national contracts, establish purchase specifications, and set general purchasing policy. He or she may also purchase the stock for the central distribution warehouses and/or the central commissaries that the company owns. But, by and large, vice presidents of purchasing handle overall policy, while the individual hotel units, although they do not have complete freedom, exercise a great deal of purchasing discretion within established limitations.

PURCHASEPRO

As an e-commerce enabler, PurchasePro helps businesses of all sizes develop a solution that fits individual needs, from streamlining purchasing processes and establishing online distribution centers, to creating co-branded e-marketplaces (see Figure 1.3).

PurchasePro's solutions are highly scalable and designed to accommodate the requirements of a growing company. This enables businesses of all sizes to easily buy and sell products and services, compete more effectively by enhancing sales opportunities, re-

duce procurement costs, and increase employee productivity. PurchasePro responds to the most common corporate needs: e-Procurement for corporate procurement, v-Distributor for online distributors, and e-MarketMaker for Internet market makers. As an application service provider (ASP), PurchasePro houses all of its solutions on the company's servers, thereby allowing any user with an Internet connection, user ID, and password all three private-label e-marketplace solutions.

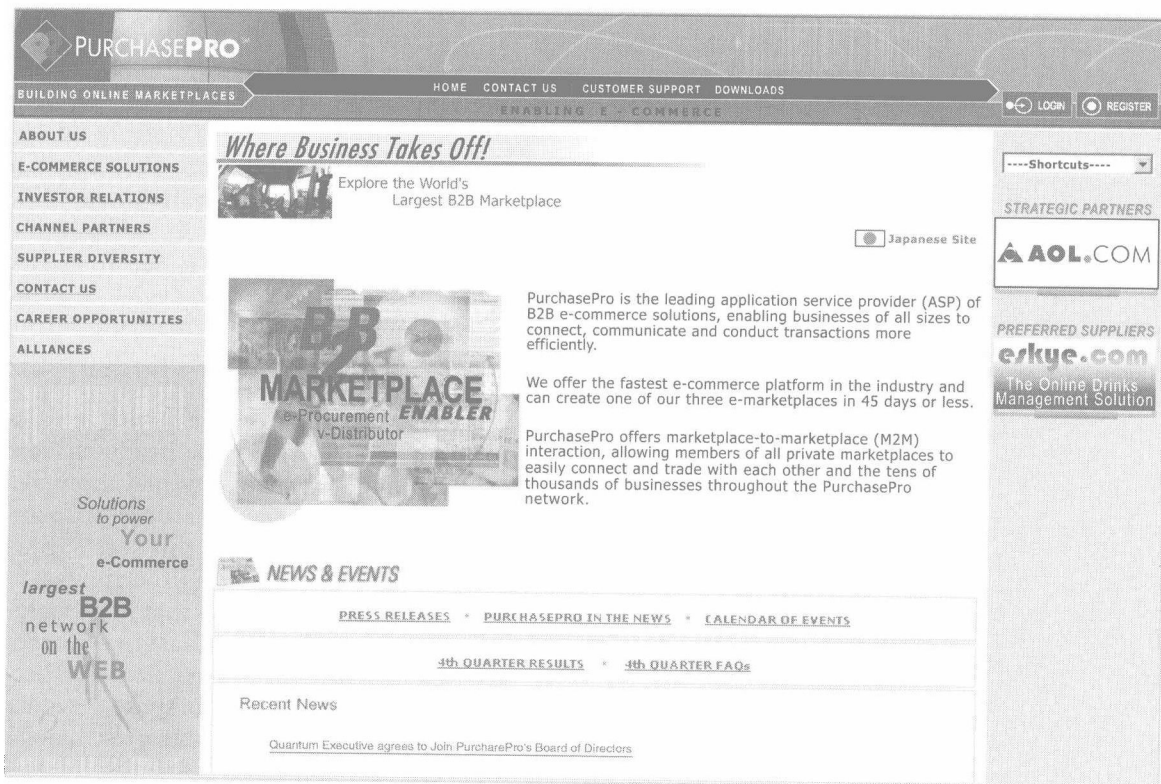


FIGURE 1.3. The Purchase Pro homepage. Courtesy of Purchase Pro.

The typical franchise receives many supplies from a central commissary, but many of these non-company-owned units try to do some purchasing locally—to maintain good relations in the community, if nothing else. However, they quickly discover that they save considerable time, money, and energy by using the central commissary and/or central distribution center as much as possible. If no central commissaries and distribution centers are available, the franchises usually order their needed stock from suppliers that the vice president of purchasing has prescreened and approved. The franchises are, however, usually free to buy from anyone as long as that supplier meets the company's requirements.

■ THE USE OF THIS BOOK

This book has been designed for those students who expect to have careers in the hospitality industry. Because we seek to address all of those individuals, not merely the readers who expect to specialize in hospitality purchasing, we have added several areas of discussion not usually found in a book aimed specifically at the professional purchasing agent.

We emphasize the managerial principles of the purchasing function and intertwine the purchasing function with the other related management activities that the hospitality operator faces on a day-to-day basis. We also de-emphasize product characteristics.

The typical way to instruct hospitality purchasing agents is to teach them all about the various products that will be purchased—that is, focusing on the development of product knowledge since an item cannot be purchased effectively without the purchaser's knowing a great deal about it. We have not eschewed the product knowledge approach in this volume. But we have presented this approach in such a way that the typical hospitality operator will learn just enough about the major product categories so that he or she can easily take on the burden, if necessary, of preparing the appropriate product specification required to select and procure an item adequately.

This book includes product information, but it also includes several related purchasing activities, such as bill paying, that most purchasing agents do not perform. However, the typical hospitality manager eventually becomes involved with many of these related activities.

We also incorporate a great deal of information on technology applications related to the purchasing function that will enable a hospitality student to learn the technological aspects of procurement. With this person in mind, we begin our discussion of selection and procurement for the hospitality industry.