



PURCHASING

SELECTION and PROCUREMENT

for the HOSPITALITY INDUSTRY

Third Edition

PURCHASING SELECTION AND PROCUREMENT FOR THE HOSPITALITY INDUSTRY

Third Edition

JOHN M. STEFANELLI

University of Nevada, Las Vegas



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PURCHASING

**SELECTION AND PROCUREMENT
FOR THE HOSPITALITY INDUSTRY**

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Purchasing: Selection and Procurement for the Hospitality Industry

John M. Stefanelli

PREFACE

In 1976, I undertook a project that seemed, at the time, to defy conventional practice. Dr. Tom Powers, Consulting Editor for the Wiley Service Management Series, suggested that hospitality educators would appreciate a purchasing textbook that combined generally accepted purchasing principles and procedures with some description of the products and services normally purchased by the typical hospitality enterprise.

Since the first edition of this book, many hospitality educators have adopted this approach to purchasing instruction. Many of my colleagues, both in education and in 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 nonpurchasing agents. It provides a comprehensive and understandable view of the activity, as well as its relationship to the management of a successful operation.

This book has also proved useful to professional purchasing agents. In the *Journal of Purchasing and Materials Management*, Summer, 1985, reviewer Richard L. Mooney, C.P.M., Materiel Manager at UCLA, stated that "This is a management book. But there is a tremendous amount of very valuable hands-on purchasing information here too. For those with hospitality-type responsibilities, or those who simply wish to expand their knowledge of the specialized aspects of food and beverage buying and management, this book will be an excellent investment."

The third edition maintains the original objectives: It includes discussions of the purchasing activity and product information from a managerial perspective. Each chapter has been revised to include the most current concepts available. Some sections, including the product chapters, have been expanded. There is more information on costs and order sizes. Selection factors have been standardized.

Over the past two editions, I have received numerous comments from education and industry regarding the usefulness of this text and its approach to the subject matter. I am gratified that so many people spent the time necessary to provide valuable input, particularly since most reactions have been favorable. I have used many of these comments in the extensive

revision of this third edition. I wish to acknowledge especially the following: Gus Katsigris, El Centro Community College; Johann R. Mitchell, University of Florida; James A. Bardi, Pennsylvania State University, Berks Campus; Patricia McCaughey, Endicott College; Diane C. Leighton, Yuba College; Rob Heiman, Kent State University; Orrin W. Cafferty, East Stroudsburg State College; Martin Cryan, Sullivan County Community College; Brother Herman Zaccarelli, C.S.C., California Culinary Academy.

In preparing the third edition, I have benefited from the thoughtful and constructive feedback of the following reviewers: Richard Neumann, Ohio University, Athens; Paul J. Cannamela, Erie County Community College; Michael Piccinino, Shasta College; Costas Katsigris, El Centro Community College; William Neth, Erie County Community College.

The appropriate methods of teaching purchasing to hospitality students continue to be subject to a great deal of opinion, discussion, and interpretation. This book is a synthesis of generally accepted industry principles and practices and my personal experience and judgment. I hope it will continue to be seen as a worthy contribution to each reader's professional development.

JOHN M. STEFANELLI

University of Nevada, Las Vegas

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P A R T 1

**GAINING A
PERSPECTIVE
ON SELECTION
AND PROCUREMENT**

CHAPTER 1



THE CONCEPT OF SELECTION AND PROCUREMENT

THE PURPOSE OF THIS CHAPTER

This chapter discusses:

- The major differences among purchasing, selection, and procurement
- The major differences among the types of hospitality operations

INTRODUCTION

To most hospitality students the term “purchasing” means paying for an item or service. This conveys a far too restrictive meaning; it fails to portray 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 applesauce; a buyer can select a specific quality of applesauce; a buyer can select from among several applesauce suppliers; and a buyer can select, theoretically, from among fresh and processed products.

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 or supplier and a buyer—our hospitality operation. What is exchanged is a supplier’s product or service for our money or some other item or service of comparable value. Most people see procurement as the “nuts and bolts” of the buyer’s job. Once they know what they want, buyers set about locating the “best” supplier. They then order the correct amount of the product or service at the appropriate time, see to it that deliveries are timely, and that the delivered products meet or exceed the buyer’s requirements.

A host of related duties surround these activities—being on the lookout for new items and new ideas, learning the production needs of the 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. Buying, to these employees, 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 applesauce. The typical operating manager must also consider what form of applesauce to purchase—and whether or not applesauce should be on the menu to begin with.

TYPES OF HOSPITALITY OPERATIONS

The hospitality industry includes three major 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, which includes troop feeding and housing as well as the various military clubs and military exchanges that are operated on military bases. The second and third segments are collectively referred to as *noncommercial* hospitality operations.

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

1. Fast-service restaurants
2. Snack bars
3. Table-service restaurants
4. Hotels with food services
5. Casinos with food services
6. Motels with food services
7. Hotels, casinos, and motels without food services
8. Taverns and lounges
9. Cafeterias
10. Family restaurants
11. Steak Houses
12. Social caterers
13. Mobile caterers
14. Vending machine companies
15. Buffets

16. Ice cream stands
17. In-transit food services (e.g., cruise ships and airlines)
18. Contract food service companies, which typically operate in factories, office buildings, day-care facilities, senior care facilities, schools, recreation centers, and sports centers
19. Convenience stores with food services
20. Supermarkets with food services

The following types of operations are generally considered part of the noncommercial 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 facilities
10. Camps
11. Public institutions, such as the food services in some government facilities
12. Adult communities
13. Correctional facilities
14. Religious facilities

MAJOR PURCHASING DISTINCTIONS IN HOSPITALITY OPERATION TYPES

In Chapter 5, 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 only attempt to provide you with sufficient understanding to carry you through to Chapter 5. 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 more modern mode 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 the buying for the business. He or she also oversees the other related purchasing activities, such as receiving 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 are performed by other management personnel. For instance, he or she typically coordinates the purchases of department heads, like the dining room manager who needs ash trays, the bartender who requires liquor, and the chef who needs foodstuffs. The general manager also oversees the other related purchasing activities.

The large independent, usually hotels, 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. Or a designated employee from each of these departments might be doing the purchasing: for example, a steward who orders food and also supervises dishwashers and pot washers. Most familiar is the large independent operation that has a full-time food buyer, beverage buyer, and equipment and nonfood supplies buyer. These three may or may not be supervised by a purchasing vice president or some equivalent official. They are, almost certainly, supervised by some management person.

An idea addressed more completely in Chapter 5 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 in which hospitality operations come together to achieve savings by purchasing food and supplies in bulk. Either they rotate the purchasing duties among themselves, or they hire someone to coordinate all the purchasing for them. For instance, some lodging properties belong to referral groups that provide, among other things, some central purchasing activities.

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 approved by that officer; they 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 an approved supplier. The unit managers may have authority to buy a few things on their own, like a cleaning service or some carpentry work. But when they do this sort of purchasing, they nevertheless need to follow company policies and procedures.

In the 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, and the individual hotel units, although they do not have complete freedom, nevertheless exercise a great deal of purchasing discretion within established limitations.

The typical franchise receives a good many supplies from a central commissary, but many of these noncompany-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 there are no central commissaries and distribution centers available, the franchises usually order their needed stock from suppliers who have been prescreened and approved by the vice president of purchasing. They may, however, usually 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 those individuals, not merely the readers who expect to specialize in hospitality purchasing, we 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 are faced by the hospitality operator on a day-to-day basis. We also de-emphasize product characteristics.

The typical way of instructing 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 knowing a lot about it. We have not eschewed the product knowledge approach in this volume, but we have presented it in such a way that the typical hospitality operator will learn just enough about the products that he or she can easily take on the burden, if necessary, of

preparing the appropriate product specification needed 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 the purchasing agent does not perform. However, the typical hospitality manager does become involved with many of these related activities. Hence, it is with this person in mind that we begin our discussion of selection and procurement for the hospitality industry.

KEY WORDS AND CONCEPTS

A broad view of purchasing	Noncommercial hospitality operations
Central distribution center	Procurement
Commercial hospitality operations	Purchasing
Commissary	Referral groups
Co-op buying	Selection
Franchise	Varying purchasing organizations

QUESTIONS AND PROBLEMS

1. Define the term "selection."
2. Define "procurement."
3. Explain the advantages of studying the broad view of the purchasing function.
4. Briefly describe the major segments of the hospitality industry.
5. Briefly differentiate between the way the small and the large independents generally do their purchasing.
6. Briefly describe "co-op buying."
7. Briefly describe two typical purchasing procedures found in multiunits and franchises.
8. Briefly describe how the unit of a large hospital chain probably does its purchasing.
9. Name one reason a franchise might do some local buying.
10. Describe three duties of a vice president of purchasing in a large hotel or restaurant chain.
11. Why might a small, independent hospitality operation be interested in co-op buying?
12. Under what conditions do you think a franchise operation might be interested in co-op buying?