

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

There is not a single job in the hospitality industry that does not involve purchasing in one way or another. A flight attendant must keep careful inventories of bottled water and soft drinks to know how much to request for restocking. The manager of a hotel must be able to find the best price for laundry detergent in a reasonable quantity for her size operation. An accountant for a hotel chain must know enough about the company's purchasing agreements to take advantage of discounts based on timely payments. An event designer must know the current price for linen rentals so he can make short-notice orders in an emergency. These are just a few of hundreds of scenarios where purchasing plays a critical role in the hospitality industry. Think about it for just a moment; it is the person in charge of purchasing who spends the majority of the money made by a hospitality operation, and it is his or her skills and knowledge that significantly assist in the profitability of an operation. It could easily be said that purchasing is one of the most important functions in any hospitality operation.

For most people, the term “purchasing” means simply paying for an item or service. For hospitality professionals, this meaning is far too restrictive because it fails to convey the complete scope of the buying function. For our use, the terms “selection” and “procurement” better define the processes involved.

Selection can be defined as choosing from among various alternatives on a number of different levels. For example, a buyer can select from among several competing brands of beef, various grades of beef, particular suppliers, or fresh and processed beef products. One person, generally referred to as a buyer or purchaser, may not perform all these activities or make all these choices at one time. But they may 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.

Procurement activities are the nuts and bolts of the buyer's job. Once buyers know what is needed, they set about locating the suppliers who can best fulfill their needs. Buyers then attempt to order the correct amounts of products or services at the appropriate times and best prices, see to it that shipments are timely, and ensure that the delivered items meet company requirements. A host of related duties surrounding these activities include: being on the lookout for new items and new ideas, learning the production needs of the departments they serve, appraising the reliability of suppliers, identifying new technologies for procurement, and so on.

Not all operations have full-time buyers. Many have managers and supervisors who do the buying in addition to their other duties. To these employees, buying means more

than what the term “procurement” by itself implies. These employees must also be aware of the relationship between purchasing and the other 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. For example, it is not enough to simply 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 that has revolutionized how buyers and suppliers procure products and services. This technology enables purchasing managers to complete complex procurement functions with a few clicks of the mouse. Most of these functions take place over the Internet.

Transactions done electronically are commonly referred to as “e-commerce,” for electronic commerce. “B2B e-commerce” is the term used for business-to-business electronic transactions and “B2C e-commerce” refers to business to consumer e-commerce. Amazon.com, for example, relies on B2C e-commerce to sell its products to consumers. B2B e-commerce that focuses specifically on procurement activities is referred to as “e-procurement,” for electronic procurement. Examples of companies that make e-procurement applications available to a wide variety of industry segments include:

Perfect Commerce	www.perfect.com
Sap	www.sap.com/solutions
Ariba	www.ariba.com
Verticalnet	www.verticalnet.com
Sterling Commerce	www.sterlingcommerce.com

These companies have successfully revolutionized the way procurement is conducted by harnessing the power of the Internet. One major company that focuses on the development of e-procurement applications in the foodservice industry is Instill (www.instill.com). Companies such as Applebee’s, Dairy Queen, Hardee’s, KFC, Pizza Hut, Sodexho, Subway, and Taco Bell, rely on Instill’s e-procurement applications to streamline their selection and procurement functions.¹ Avendra (www.avendra.com), one of the largest procurement services companies,² has primarily focused on developing e-procurement applications for hotels. The company was formed by ClubCorp USA, Inc., Fairmont Hotels & Resorts, Hyatt Hotels Corporation, Marriott International, Inc., and Six Continents Hotels.

We discuss technology applications for purchasing in more detail in Chapter 2. To illustrate how technology has radically changed selection and procurement in the hospitality industry, we explore new software, hardware, and e-procurement applications

throughout this textbook. We 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 segments. The first segment is commercial hospitality operations—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).

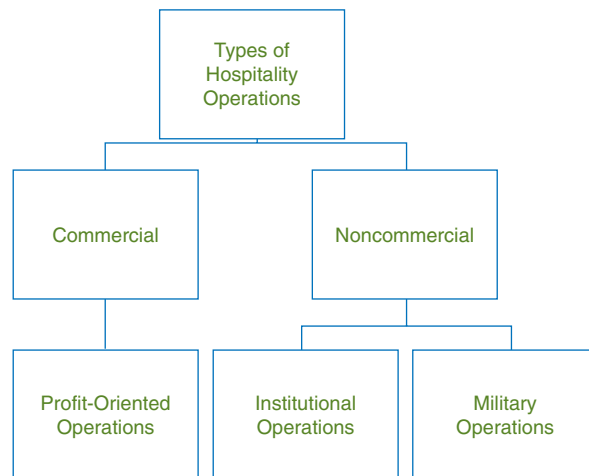


FIGURE 1.1 A major segment outline of the hospitality industry.

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

- Hotels
- Motels
- Casinos
- Resorts
- Lodges
- Spas
- Quick-service (limited-service or fast food) restaurants
- Table-service (full-service) restaurants
- Snack bars

- Food courts
- Taverns, lounges, and bars
- Cafeterias
- Buffets
- On-premises caterers
- Off-premises caterers
- Vending-machine companies
- Ice cream parlors and stands
- In-transit food services (e.g., cruise ships and airlines)
- Contract foodservice companies, which typically operate in plants, office buildings, day care facilities, assisted care facilities, senior care facilities, schools, recreation centers, hospitals, and sports centers
- Convenience stores with food services
- Supermarkets with food services
- Department stores and discount stores with food services

The following types of operations are generally considered part of the noncommercial division of the hospitality industry:

- Employee-feeding operations
- Public and parochial elementary- and secondary-school food services
- College and university dormitories and food services
- Transportation food services, such as the Meals on Wheels program
- Hospitals
- Assisted living facilities
- Extended-care facilities
- Clubs
- Self-operated community centers, such as senior centers and day care centers
- Military installations
- Camps
- Public institutions, such as the food services in some government facilities
- Adult communities
- Correctional facilities
- Religious facilities
- Shelters

PURCHASING FUNCTIONS IN DIFFERENT TYPES OF HOSPITALITY OPERATIONS

In Chapter 6, we offer a detailed discussion of the purchasing functions found in the various types of hospitality operations. In this introductory chapter, however, we provide you with sufficient understanding to get you started. When we discuss traditional

hospitality operations, we think first of the independent operation. In addition, those in the trade usually group the independent operations according to size: the small, medium, and large independents. The other major type of hospitality operation includes the multi-units and the franchises.

■ 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 napery, 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. Often the large independent operation has a full-time food buyer, a beverage buyer, and a buyer who purchases equipment and other nonfood supplies. 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 was mainly because these smaller businesses had to pay higher prices for many of the products that they procured because they were not afforded the same discounts as large companies (we talk more about these discounts in Chapter 7). However, e-procurement technology has leveled the playing field in many instances by enabling these smaller hospitality companies to procure products at more competitive prices, and therefore to be more competitive pricewise with larger hospitality operations.

Today, hospitality buyers can select and procure goods and services from suppliers and distributors all over the world. These buyers and sellers can come together in virtual marketplaces online (commonly referred to as “e-marketplaces”), which allow suppliers the opportunity to sell their wares to a variety of hospitality operations. Examples of these

marketplaces include Foodservice Central (www.foodservicecentral.com) and Amphire (www.amphire.com), which is one of the main marketplaces utilized by the Burger King Corporation.

An idea addressed more completely in Chapter 6 is co-op buying, a concept that enjoys popularity among some independent hospitality operations, particularly some foodservice operations. 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 among themselves, or they hire someone (or a company) to coordinate all of the purchasing for them. Another type of co-op involves referral groups which are independent operators joining together to send business to one another. For instance, Best Western is a lodging referral group that has a central reservations system available to each member.

E-commerce has significantly affected co-op buying. Companies are currently aggregating purchasing processes for similar hospitality organizations throughout the country. These companies are commonly referred to as “aggregate purchasing companies” or “group purchasing organizations” (GPOs).

These aggregate purchasing companies do not buy or sell products. Instead, they negotiate contracts on behalf of restaurants, hotels, management companies, resorts, and Real Estate Investment Trusts (REITs). Each company enrolling in this “electronic co-op” might receive a purchasing guide that includes the names, e-mail addresses, and telephone numbers of suppliers, along with a brief description of the programs negotiated on purchasing companies’ behalf. Buyers can then access a private e-commerce marketplace—or portal—to conduct business with approved distributors or suppliers. As more buyers become members of the GPO, purchasing power increases and so do savings. Typically, either buyers pay a participation fee that provides access to the aggregate purchasing companies’ pricing or the GPO takes a percentage of the savings.

■ The Multi-Units and Franchises

The second major category of hospitality operations in the purchasing function includes multi-unit companies, franchises, and chains. These interlocking operations organize their purchasing somewhat differently from independent organizations. One usually finds, when examining a chain of hospitality operations, for example, a centrally located vice president of purchasing. Moreover, the company may maintain one or more central distribution points, such as a commissary or distribution warehouse. The managers of the company-owned outlets receive supplies from the central distribution points under the authority of the vice president of purchasing. Often these managers

may also do a minimal amount of purchasing from local or national suppliers that this vice president 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 commissary.

In company-owned 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 company's central distribution warehouses and/or central commissaries. 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.

The typical franchisee 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 commissary and/or central distribution center as much as possible. If no central commissaries and distribution centers are available, the franchisees usually order their needed stock from suppliers that the vice president of purchasing has prescreened and approved. The franchisees 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 duties and responsibilities

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, to focus 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 prepare the product specifications required to select and procure an item if necessary.

This book includes product information, but it also includes information on 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.

It is our goal that wherever your career takes you within the hospitality industry, you will be adequately prepared to interact with the selection and procurement functions of an operation. With this in mind, we begin our discussion of selection and procurement for the hospitality industry.

A DAY IN THE LIFE OF A PURCHASING AGENT

Danny Campbell, Director of Purchasing, Silverton Casino Lodge, Las Vegas, Nevada

In purchasing, there is never a moment when one's "to do" list isn't longer than the hours in the day. There is always a new product to consider, a vendor who is not living up to expectations who needs to be replaced, or a special request to fulfill.

Recently in my position as purchasing director, I have been reviewing our expenditures of the past year, looking for ways to lower our costs. One line item that sticks out is the amount of money we've



Danny Campbell

continues

A DAY IN THE LIFE OF A PURCHASING AGENT (continued)

spent on paper napkins. It doesn't sound like that should be a big-ticket item, but the relatively high cost is due to the fact that we have high-quality paper napkins in our buffet restaurant. My daughter even commented one day that they feel like real linen.

You might think that the best thing to do would be to simply buy cheaper napkins. However, that is not the case. Before I even look into possible alternatives I will talk to the food and beverage director to see if she would consider another napkin. We will probably involve the manager of our buffet restaurant in the conversation and perhaps even ask members of the wait staff if they have heard any comments about the napkin quality. You see, the napkins, in conjunction with the food, the courtesy of our personnel, the décor of the casino and restaurants, our hotel room amenities plus hundreds of other factors, all contribute to the way the property is perceived by our guests. Changing the napkins in the buffet line may impact the bottom line in more ways than one.

In the end, we will probably look at alternative napkins and assess them for price and quality. Then, if shipping costs, storage costs, price break quantities and payment options are comparable to those of our current supplier, we may have a new napkin on our buffet line and as a result our bottom line will look just that much better.

As you can see from the example above, my job is not conducted in a vacuum. A purchasing director is involved in every facet of operations in his or her hotel or casino and works with people from every department. This is what is so wonderful about my job. I love the thrill of the hotel business, but have never relished the 70 to 90 hours a week required by most hotel management positions. Imagine being part of the energy and excitement of a hotel and yet having the luxury of working a standard business week of 40 to 50 hours, Monday through Friday. That is a job in purchasing.

I didn't start out with the intention of going into purchasing, but every job I had provided me with experience that has proved helpful in my current position. After graduating with a B.S. in Hotel Administration from the University of Nevada Las Vegas (UNLV), I went straight into food and beverage. I started off working convention centers, racetracks and Jai-Alai frontons. I worked long hours and was moved around often by my employer. I returned to Las Vegas and spent time on the other side of the desk in sales for Anheuser Busch and Sysco Foodservices.

My first purchasing job was with the Sands Hotel, a small 700-room hotel and casino in Las Vegas where the Venetian Hotel now stands. I did all of the buying for food and beverage, and, breaking all of the rules, I was also responsible for receiving, warehousing, and distribution of all items that came to the property. Every day—even when I was supposed to be on vacation—I walked the warehouse and refrigerators and set the pars for the purchases for that day.

A DAY IN THE LIFE OF A PURCHASING AGENT (continued)

A couple of years later, I attained my first job as director of purchasing at Main Street Station, which went into Chapter 11 Bankruptcy shortly after we opened. The chief financial officer would call me each morning to tell me how much money I had to spend that day, and I found myself having to make decisions such as whether to buy new pillows for the hotel or prime rib for the restaurant. This was an incredible learning experience. I learned how to work with distributors to keep supplies coming into the operation, most of whom had us on a COD, or cash on delivery, basis. Plus, it was here that I learned that every nickel is worthy of negotiations and every line item on the contract is vitally important and can dramatically impact the well-being of the company.

Although my job at Main Street Station was grueling in every sense of the word, I found that I love purchasing and have remained in that part of the industry ever since. Of the five jobs in purchasing I have held over the past twenty-two years, four of them were obtained with the help of contacts I made while I was a student at UNLV. The friends and contacts you are making right now in school will be invaluable to you later. You never know when they can help you find a job, locate a specialty supplier, or fill a position you may have available.

I encourage you to consider a career in purchasing. You get all of the excitement of the hotel or restaurant and participate in every major decision, yet still have time to have a life of your own. We may be unsung heroes in the hospitality industry, but the only other people who have as much input into operations are the chief executive officers (CEOs) and upper managers. Remember, there are many, many more jobs for purchasing agents than there are for CEOs!



Key Words and Concepts

A broad view of purchasing	Executive steward
Aggregate purchasing companies	Franchise
Business-to-business (B2B)	Group purchasing organization (GPO)
Business-to-consumer (B2C)	Noncommercial hospitality operations
Central distribution center	Portal
Commercial hospitality operations	Procurement
Commissary	Purchasing
Co-op buying	Real Estate Investment Trust (REIT)
Electronic commerce (e-commerce)	Referral groups
Electronic marketplace (e-marketplace)	Selection
Electronic procurement (e-procurement)	



Questions and Problems

1. Define the term “selection.”
2. Define the term “procurement.”
3. Explain the advantages of studying the broad view of the purchasing function.
4. What is an e-procurement application?
5. Briefly describe the major segments of the hospitality industry.
6. Briefly differentiate between the ways in which the small and the large independents generally do their purchasing.
7. Briefly describe co-op buying.
8. How has e-commerce affected co-op buying?
9. Briefly describe two typical purchasing procedures found in multi-units and franchises.
10. Briefly describe how a local restaurant that is part of a large restaurant chain probably does its purchasing.
11. Name one reason why a franchise might do some local buying.
12. Describe three duties of a vice president of purchasing in a large hotel or restaurant chain.
13. Why might a small, independent hospitality operation be interested in co-op buying?
14. Under what conditions do you think a franchise operation might be interested in co-op buying?
15. Define the term “purchasing.”
16. Define the term “e-marketplace.”
17. What is a referral group?
18. Briefly describe the benefits of e-commerce.
19. How do you think e-commerce has changed the hospitality industry?



Experiential Exercises

1. Ask a manager of a local franchise operation the five questions below. Write a report detailing your findings.

Do you currently purchase items from a commissary?

If so: What items are you required to purchase from the commissary?

Do you have to follow specific guidelines on the other products you purchase outside of the commissary?

What are the benefits of purchasing from a commissary?

What are the drawbacks of purchasing from a commissary?

2. Interview a noncommercial hospitality operator. Ask him or her to describe the job and explain how the responsibilities differ from those of a commercial hospitality operator. Write a report detailing your discussion with the operator.
3. Shadow (follow around) the owner of a small independent operation for a day. Prepare a diary of all duties and responsibilities performed by the owner.



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