



## To Bid or Not to Bid? That's Not the Question

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Hotel operators have long understood the value of negotiating with foodservice vendors for better pricing. So the question isn't really whether it's a good idea to get bids on prices. The key question is how well they do it. Food and beverage costs will never be lower than the total amount spent, so the obvious goal is to get the best pricing possible for the quality and service level required. Unfortunately, many hotels are very casual about how they do this.

In many cases, chefs simply talk to distributors about certain items they plan to order. Some chefs have favorite suppliers and simply trust them to provide the best possible pricing. Sometimes the distributor's salesperson calls to point out the specials they are offering at the time. Some chefs contact a few suppliers and write down their pricing in order to compare. But for the vast majority of hotels, the bidding process is very informal, and the majority of items purchased are not competitively bid.

The difference between a strong bidding program and a casual one can be substantial. John McKeel, Food and Beverage Controller for the Ocean Reef Hotel in Florida believes the savings to be significant. "I would guess the pricing averages about 5% lower when bidding," says McKeel.

### New Solutions to an Old Problem

The primary reason for lax bidding practices in hotels can almost always be attributed to labor. To compile lists of 500 items or more, call the vendors frequently to get their prices updated, and then to scan the list for the best price every time an order is placed would require more time than the savings may be worth. But recent developments have the potential to substantially change the game – in favor of the hotel. These developments fall into two basic categories – use of outside buying groups, and use of automated procurement systems with bidding features. The options are not mutually exclusive, and in some cases, the best option may be using both approaches.

### Group Purchasing Organizations

Group Purchasing Organizations (GPOs) specialize in aggregating large numbers of buyers in order to negotiate better deals through manufacturers and major distributors. If the hotel is willing to follow the rules established by the GPO, it can take advantage of the professionally negotiated volume pricing. The rules vary depending on the GPO, but typically involve minimum volume commitments as a percentage of total purchasing and minimum drop sizes. The GPOs make their money either through monthly fees or commissions, or by keeping all manufacturer rebates.

On the whole, GPOs get better pricing than small organizations, but not always and not for everything. "We buy non-food things through our GPO as well, but as far as food goes I am not sure I am always getting the best pricing," says Ocean Reef's McKeel. We sometimes find we get better pricing bidding certain items on our own. We also occasionally have to switch vendors because their contract with the GPO is up. This can be hard for our vendor relationships. And we have to maintain minimum drop sizes in order to keep the pricing tier we want. That can be challenging given the seasonality of our business and the perishability of some items."

## **Procurement Systems**

In the September/October 2011 issue, we discussed two methods for reducing F&B costs through competitive bidding – group purchasing organizations (GPO) and automated procurement systems. That issue focused on the GPO, so now we turn our attention to the bidding features of a food and beverage procurement and inventory control system.

The most important thing to look for in a procurement system when it comes to bidding is its ability to collect bids electronically from all vendors. If vendor bids must be collected and entered manually by hotel staff, the bidding benefit is outweighed by the labor cost. The more sophisticated F&B procurement systems interface directly with the larger distributors and import the bids electronically, while providing importable Excel spreadsheets or web-based portals for the smaller vendors. Shifting the responsibility for collecting pricing from the hotel to the vendor not only saves time, but creates the potential for all items to have bids. Implementing a hotel policy stating that only bidding vendors will be considered for purchasing further cements the process.

Vendors enter start and end dates on the bid sheets and submit them routinely as the previous bids expire. When the time comes to create orders, the system compares all the active bids and selects vendors for each item needed based on price or other preference criteria. Purchase orders are created with the vendor's bid price on it, which can then be used to reconcile the invoice when the goods arrive.

The benefits of this approach include both cost savings – generally 4-5% lower pricing due to competitive bidding, and labor savings. Chefs and purchasing agents, who are usually involved in the bidding and purchasing process for hotels, can spend 10-20% of their day on this process. Automation frees up the chef to manage the kitchen and reduces the potential for collusion between chefs and suppliers. And because purchase orders are created with pre-agreed pricing, it becomes possible to reconcile vendor invoices against the bids, eliminating the potential for vendors to quote one price and charge another.

Automatic cost comparisons and purchase order creation enables even smaller hotels to benefit, since doing this work manually is too labor-intensive and therefore cost prohibitive. And it is primarily because of the labor issue that most hotels have been unable to take advantage of the benefits of a comprehensive manual bidding approach.

## **Best of Both Worlds**

As mentioned in the previous article, the two options are not mutually exclusive. Comprehensive F&B procurement and inventory control systems are currently used by many of the larger, more successful hotels. But the use of this type of software, like other types of widely adopted hotel technologies, will eventually be standard practice for the hotel industry. Yet, even with these systems, it may be advantageous to join a GPO for purchasing from large distributors, while aggressively bidding among all other suppliers for everything else. It is also helpful to bid the items provided through the GPO with other distributors as well to determine if the pricing from the GPO supplier is better than that of other distributors. Either way, automating the procurement process completes the picture, since it generates purchase orders, updates inventories and recipe costs, reconciles invoices and provides numerous other controls and labor-saving functions.

## **How Much to Bid? That is the Question.**

In the final analysis, acquiring bids for all purchased goods from all the hotel's suppliers is not possible without the automated system. It stands to reason that bidding everything in inventory will result in the best possible pricing and therefore the lowest potential F&B costs. By the same token, bidding some items is clearly better than bidding no items, and not all hotels have the funds required to invest in procurement systems. Even that barrier is coming down thanks to lower costs associated with cloud-based hosted systems. So the question really isn't whether to bid or not to bid; but rather how much to bid and the best approach for getting it done.

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