SMOKE JUMPERS

San Francisco
January 2012

Participating Companies

AdvancePierre

Bagcraft/Papercon

ConAgra Foods

Continental Mills

Custom Culinary

Flowers Foods

FoodHandler

Foster Farms

General Mills

Heinz

Hormel

International Paper

John Morrell

Kraft Foods

Lamb Weston

Mars

Nestle

Pactiv

Pepsi Foodservice

Procter & Gamble

Rich Products

Sara Lee

Simplot

Solo Cup

Tyson Foods

Confidentiality and Antitrust

- We are not here to ask anyone to disclose sensitive competitive information
- We are not here to encourage anyone to recommend changes to their company policies or practices – those decisions are up to each of you independently
- If you feel something is proprietary or confidential, do not offer that up to the group
- Do not breach any confidentiality agreements you may have with your customers during these discussions
- All information shared during this session should be considered "public domain"

Agenda for today

8:30 to 9:45	General Session
10:00 to 11:00	Breakouts [brainstorming]
11:15 to 12:00	Recaps
12:00 to 1:00	Lunch
1:00 to 2:00	General Session
2:15 to 3:15	Breakouts [tools]
3:30 to 4:00	Recaps
4:00 to 4:30	Day 1 Summary and Day 2 Goals

Agenda for Day 2

8:30 to 10:30 General Session

- Recap Day 1
- Thoughts on "execution"
- Volunteers on moving forward

11:00 to 12:00 Wrap up and next steps

What is on our agenda?

A. Establishing metrics for baseline understanding of "Where are we now?"

B. Delivering tools to sell with to the sales group and reducing their role as "task masters"

C. Operator-focused spending – defining and evaluating Group Purchasing Organization [GPO] opportunities

Current State

- Volume and spending related to operator "GPO's" has dramatically increased in the past 5 years and continues to escalate across the industry
- The challenge is growing more complex with the creation of distributor-based GPO's and an entire cottage industry of "faux GPO's" that are hanging a shingle to collect allowances
- Research indicates broad and deep issues with location-level integrity and compliance
- We have confirmed that "growth" of GPO volume often sources from converted "street" business [it's just recorded differently]
- There have been many industry-level discussions and share groups focused on this topic and a range of consulting projects are underway

What should Smoke Jumpers "do" about GPO issues?

The Previous Paradigm

HEALTHCARE	BUSINESS & INDUSTRY	COLLEGE & UNIVERSITY
K-12	HOTELS / LODGING	VENDING & OFFICE COFFEE

Actual "National Accounts"

ARA Services [Aramark]

Canteen / Morrison's [Compass Group]

Marriott Management Services [Sodexo]

Westin / Marriott / Sheraton / Hyatt

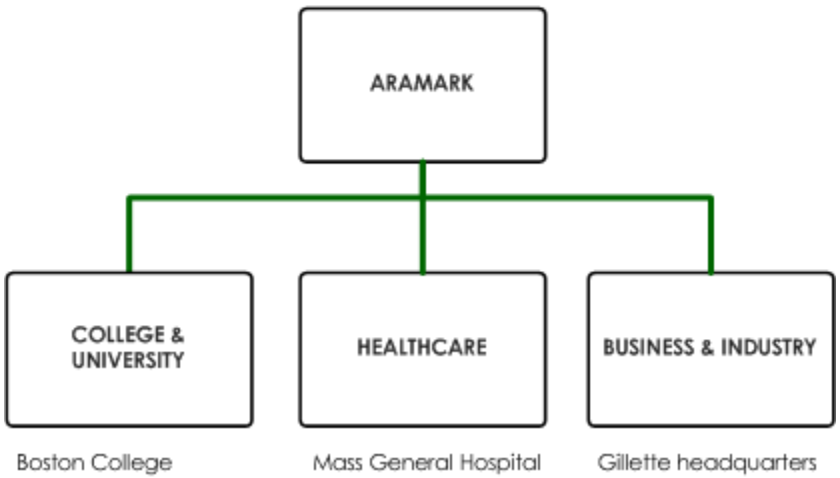
Self-Op & Independents

School bids

Individual rebates

Local programs

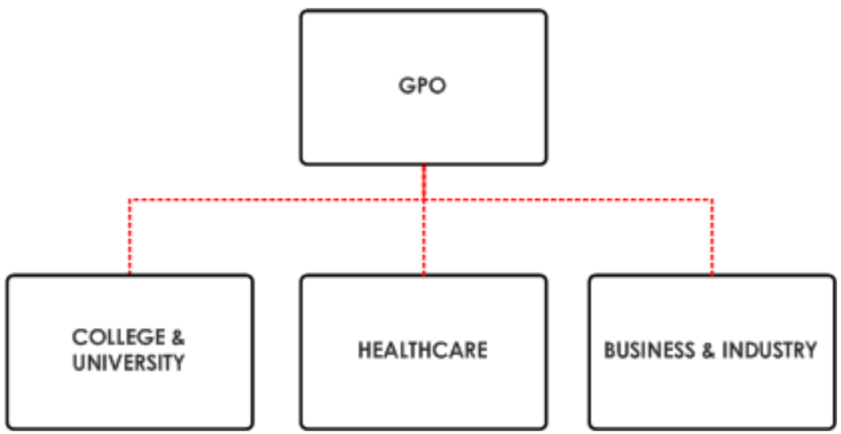
The Previous Paradigm



- Purchasing agreements with volume commitments – reasonable and demonstrable ability to "buy" on behalf of the locations
- Location-level employees – and "buyers" – who are employed by the company
- "Contracts" with the facilities to manage on-premise foodservice [e.g., "Contract Management" and/or "Foodservice Management"]

What is a 'GPO'?

A Group Purchasing Organization is an entity created to leverage the aggregate purchasing power of a group of businesses to obtain discounts from vendors based upon the collective power of the members.



- Wide range of "evidence" indicating membership
- Members are independent relative to what they buy or do not buy
- Weak correlation between GPO agreement and location purchase activity

History – Healthcare

- Explosion of popularity in the 1970's due to Medicare and Medicaid

  96% of acute-care hospitals

  98% of community hospitals

- Formation of VHA [Volunteer Hospitals of America] in 1977 an early milestone followed by Premier in 1996 [Sun Health, American Health and Premier] and Novation in 1998 [joint venture between VHA and University Health]

- Over time, concerns were raised as GPO's began collecting more than the targeted 3% administration fee and, in some instances, resulted in costs increases of more than 30%

- In 2002, the Senate Judiciary Committee's Antitrust Subcommittee imposed stricter standards and began requiring adoption of a Code of Conduct

History – Segmentation of Foodservice Non-commercial customers

- The "non-commercial" segments of foodservice [hospitals, schools, college & university, hotels] were traditionally the domain of "contract feeders" and "foodservice management companies" such as Aramark, Marriott, Morrison's and Canteen

- Those accounts were treated similarly to commercial national accounts given their ability to purchase on behalf of the locations they managed and control an authorized distribution network

- In 1989, Kraft Foodservice and Baxter aligned, forming a dedicated business unit known as 'Dietary Products'

- Over time, Kraft divested the distribution business and it evolved to what has become US Food Service

- The agreement with Baxter was the catalyst for the distribution agreement US Food Service continues to leverage in 2012 with both Premier and Novation

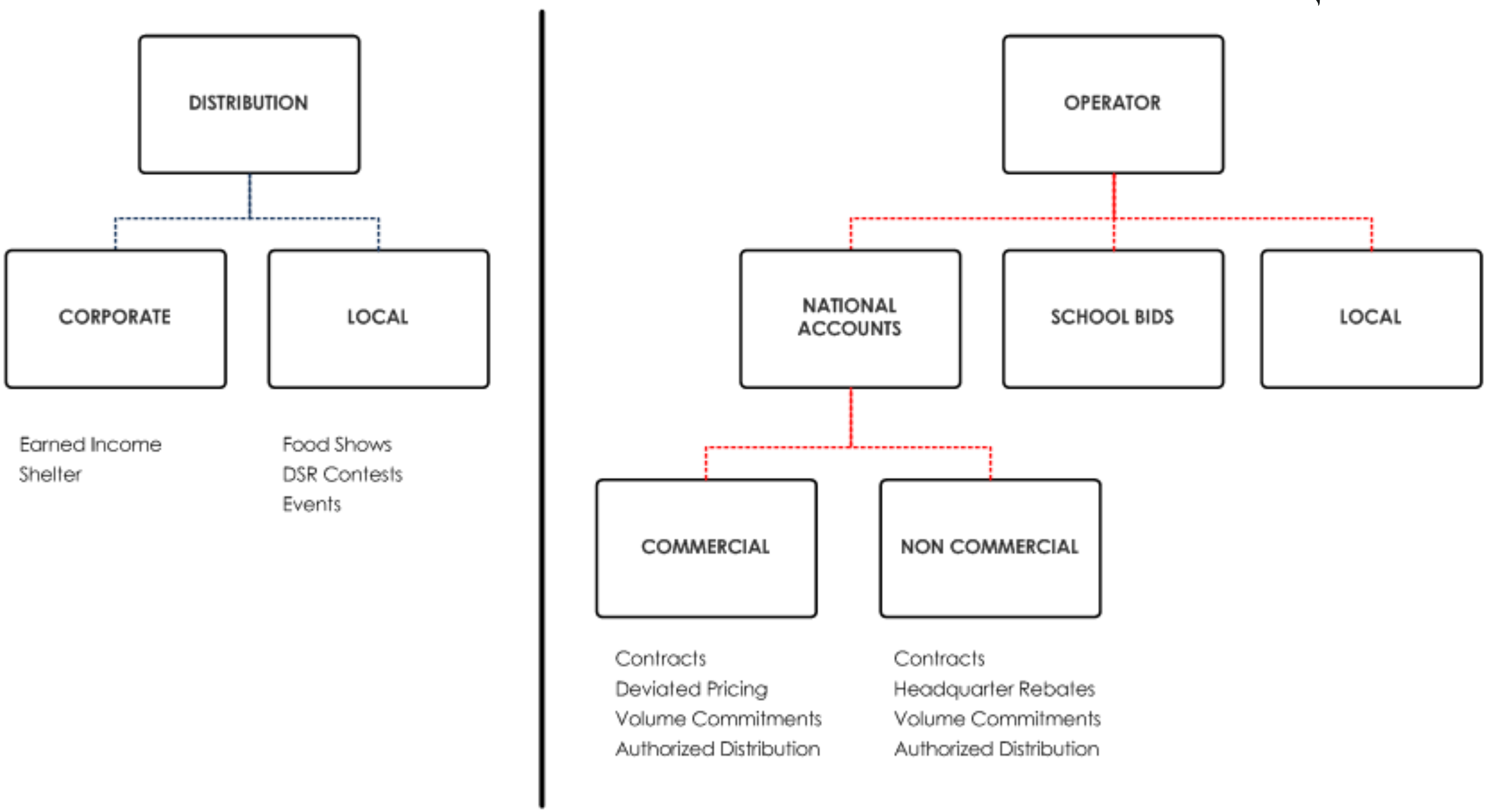
Foodservice beyond Healthcare

- The breakup of Marriott Corporation largely led to what we know today as Sodexo and Avendra [through a partnership between Marriott and Hyatt Hotels]
- The Compass Group of the UK consolidated its purchases of Canteen, Morrison's, Levy Restaurants and Bon Apetit to form foodbuy [foodbuy remains a subsidiary of Compass today]
- Over time, lines began to blur, with 'GPO' becoming a standard label for any organization operating in non-commercial segments – and began offering the same aggressive discounts to loosely formed memberships as they offered Sodexo or Aramark
- Traditionally, GPO 'programs' offered a rebate payable to the GPO on a monthly or quarterly basis. More recently, manufacturers have begun to offer deviated pricing as an element of GPO contracts
- Aggressive rates, deviated pricing and a policy of 'extendibility' have driven a great amount of friction across the channel

Today

- foodbuy [Compass, Med Assets HSCA, Starwood, Wyndham, Omni, Consorta, K-12, corrections]
- Premier [extending across channels beyond healthcare]
- Novation [healthcare, college & university]
- Avendra [Marriott/Hyatt, cruise lines, education, senior living]
- Sodexo / Entegra
- Managed Health Care [Navigator and Tidewater]
- Dining Alliance
- HPSI
- Innovatix
- Prime Advantage

Gaps on classification and qualification



Implications and Pain Points

- Margin erosion due to re-classification of ‘down the street’ accounts to group members

- Growth of spending due to multiple memberships and ‘double dipping’

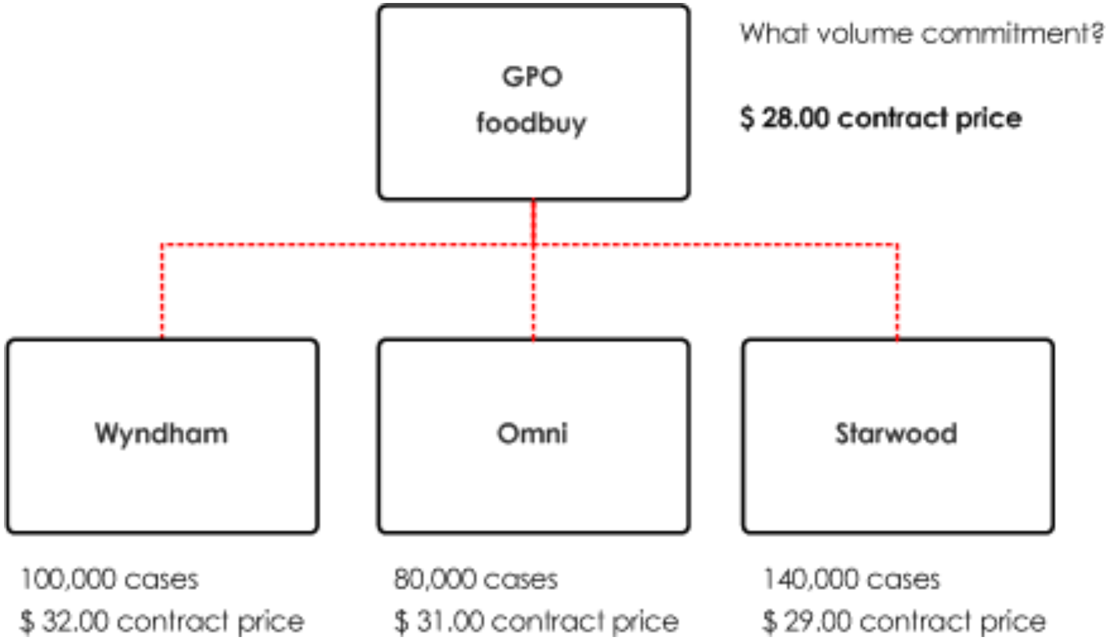
- Discount integrity issues given exposure of ‘contract feeder’ rates vis-à-vis GPO program rates

- Trade flow friction across distribution partners due to inability to control extendibility

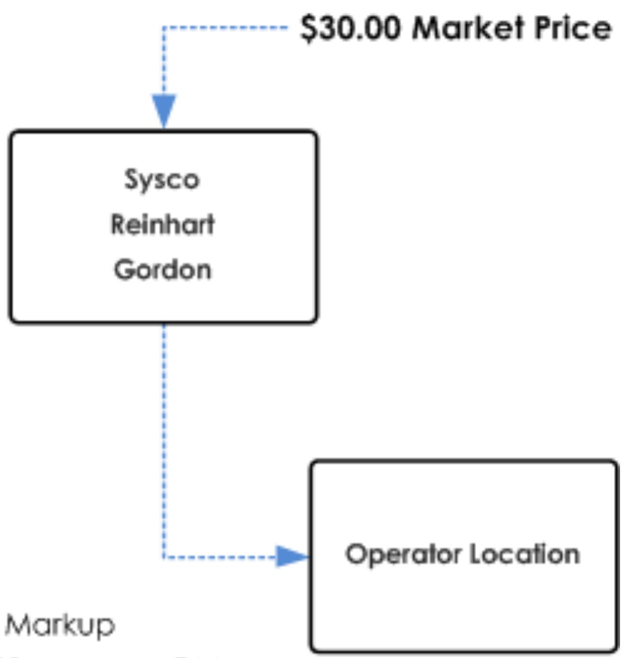
Trade Flow Friction with "real chains"

Wyndham	Omni	Starwood
100,000 cases	80,000 cases	140,000 cases
$ 32.00 contract price	$ 31.00 contract price	$ 29.00 contract price

Trade Flow Friction with "real chains"



Trade Flow Friction across distribution

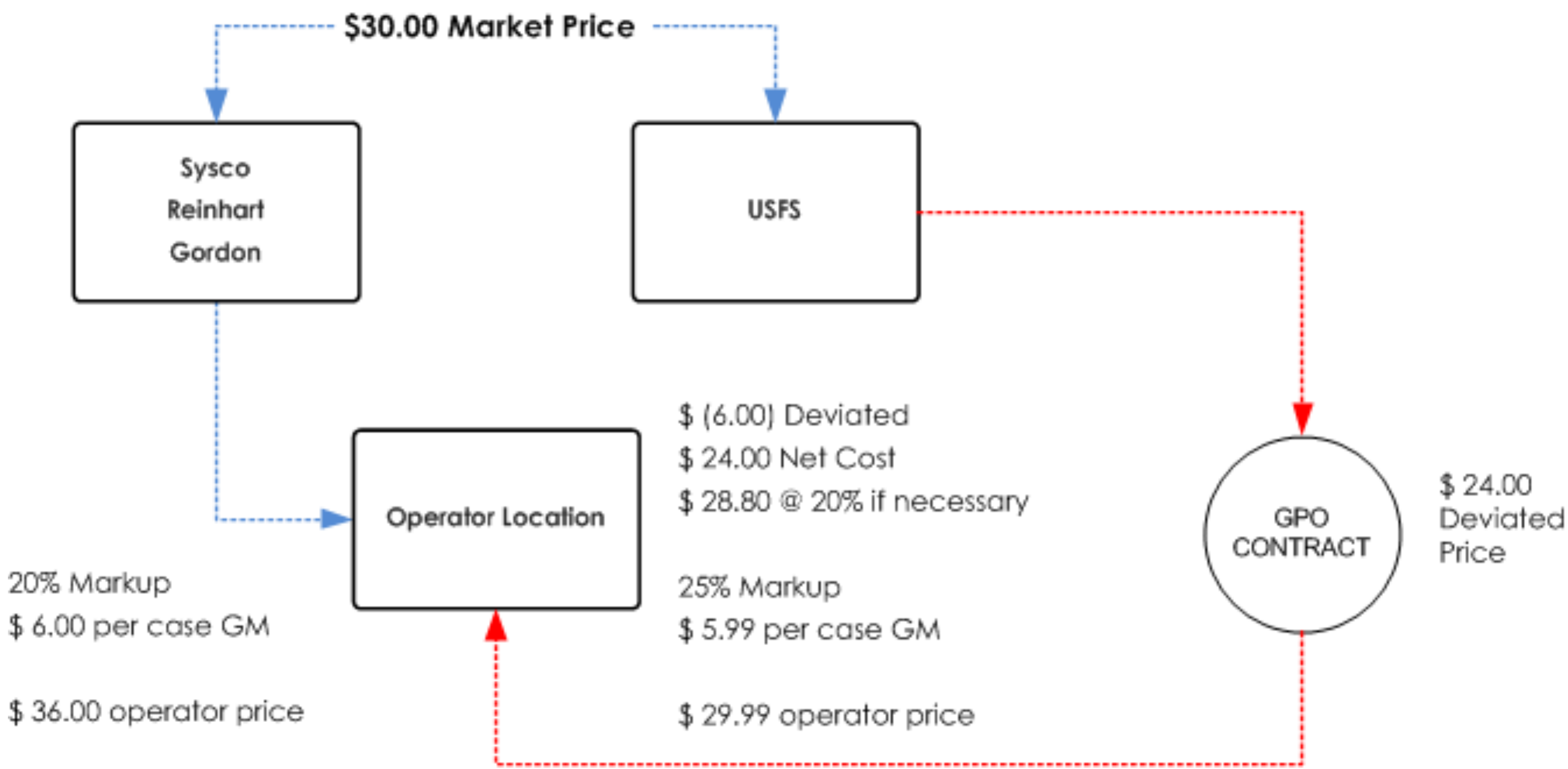


20% Markup

$ 6.00 per case GM

$ 36.00 operator price

Trade Flow Friction across distribution



How did we get here?

- Pressures to 'grow the business' and secure incremental volume led to a rationalization that GPO's were traditional Foodservice Management Companies

- That overwhelming pressure to win new accounts led to a set of economic offers that provided the incentives for extendibility and N membership situations

- An absence of definitions to provide logical assessments of opportunities for classification and segmentation left decision-making processes inadequate for the task --

  - ✓ Type of organization

  - ✓ Ability to purchase, influence purchases or collect fees

- Poor benchmarks of the existing base business for insights into current contracts and programs left decision-makers susceptible to costly mistakes [e.g., offering a GPO lower pricing than contract management companies]

What can we do?

Hypothesis #1: Most manufacturers do not support decision-makers with a consistent classification model that differentiates GPO's from Foodservice Management along with a logical assessment of the organizational rigor and ability to purchase.

Hypothesis #2: As each manufacturer deals with the industry on GPO-related issues, the absence of consistent expectations from across the range of suppliers focuses the entire negotiation on the size of the discount without parameters.

Our Goals:

- Provide a set of definitions and expectations that will drive more effective qualification and classification of opportunities.
- Support decision-makers with consistent assessments of each opportunity, along with benchmarks vis-à-vis existing programs and offers.

Definitions - Organization

- What differentiates ‘real’ organizations that actually negotiate and purchase from loosely-knit confederacies that collect rebate dollars?
- What would you like to know in order to differentiate ‘Paul’s Purchasing Group’ from Sodexo?

Thought-starters

✓ Membership policy [enrollment, exclusivity, awareness and disbursement of economic benefits from the GPO to the members]

✓ Availability of membership list to vendors and suppliers

✓ Authorization to audit distribution partners relative to membership compliance

✓ Control over extension of contract offers beyond the members

Definitions - Purchasing

- What behaviors or practices differentiate customers who actually purchase from those that merely collect rebate dollars?
- What would you like to know in order to differentiate ‘Paul’s Purchasing Group’ from Sodexo?

Thought-starters

✓ Processes and actions to influence location purchases

✓ Ability to comply with expectations for detailed claim information [e.g., supporting backup of claims for reimbursement]

✓ Agreement to location-level audits of membership and pass-through value realization

Today's process

- Case study format
- Small breakout groups with assignments from the case
- Break out rooms to ideate, brainstorm and problem-solve [~ 1 hour]
- Re-group as a general session

Your role

- Rely upon your experience and knowledge in the industry

- Try to free yourself of the constraints you may have "back at the ranch" [e.g., disposable vs. F&B, broker v. direct, etc.]

- The case study will ask for [a] short term pragmatic ideas that can be executed immediately and without capital or heavy resource commitments as well as [b] longer term "big ideas"

- While we are working as a group, feel free to throw in challenges you have right now for selfish reasons

Group Discussions

Execution

- These sessions will generate a wide range of “adoptable” ideas
- The challenge is in packaging them in a meaningful way in order to drive value for each company
- In the afternoon and Day 2 sessions, we want to spend time defining the deliverables that you feel would provide the greatest value
- We have defined an assessment “tool” as a thought-starter – it is for consideration and not as an end point
- A second challenge surrounds the action steps that any one company can or should initiate to engage the organization
- Our third area for discussion involves the value of synergy across companies if we were able to drive to adoption of a similar approach across the participants

Execution Questions

Day 1 – PM Session

1. What tools or documents would drive value for your organization?

Day 2 AM

2. What action steps should we take as we go back to the real world this week?

3. What is the value story for several companies adopting a similar approach vs. each company “doing their own thing”?

Group Discussions

Smoke Jumpers January 2012 Meeting
Insights | Actions | Results