Local food and public food procurement

Helmi Risku-Norja

Natural Resources Institute Finland, Economy & Society

Keywords: local and organic food, municipal catering service, competitive bidding, tendering process, most economically advantageous tender (MEAT), anticipatory dialogue, SME's

Abstract: As part of a wider concern with sustainability issues, throughout Europe there is increasing interest in alternative food supply chains. Local and organic food (LOF) is gradually gaining ground also among institutional customers. Public food purchases are constrained by the legal framework of the EU law on public procurement. The law encourages the use of most economically advantageous tender (MEAT), which enables the contracting authority to take into account criteria other than only the lowest price.

One of the restrictions in increasing the use of LOF items in institutional kitchens is the tedious procurement process. Using a case study approach, this paper explores the tendering process and its development from price-based competitive bidding towards anticipatory dialogue and interaction between the suppliers and catering personnel. The implications for SMEs are discussed.

It is concluded that when the purchasing know-how is used wisely public catering constitutes a protected space for the SME's to develop. The most important steps in increasing LOF in public catering are taken at local level. It requires local policy makers’ strategic decisions and strong commitment to long-term development work. Access to LOF items vary, and the goals in increasing the use of LOF need to be defined so as to address the case-specific circumstances and by paying due attention to the experts by experience, i.e. the actors of the catering sector and their customers. Important ingredients are the role of the path-breaking municipalities and exchange of experiences both nationally and internationally.

1 Introduction

1.1 Background
As one consequence of overall strivings towards sustainability there is an increasing interest in alternative food supply chains throughout Europe. Activity is growing around local and organic food (LOF) and in short food supply chains (SFSC) among grass root organizations (e.g. Garden Organic, 2015) as well as within public procurement (MacLeod & Scott, 2007). Institutional consumers providing food services comprise schools, day care centers, institutions of social and health care as well as military and jails. As part of overall sustainability strivings, organic food initiatives across Europe and the US feature especially school food programs (Kristensen et al., 2009; Morgan & Sonnino, 2008). The proponents stress the health and nutritional value of high quality organic food (He & Mikkelsen, 2014), re-localized food production and consumption relying in local partnership and community awareness (Risko-Norja & Løes, 2016; Sonnino & Marsden, 2006; Tikkanen, 2013) and environmental benefits (Rojas et al., 2011). The European Commission has collected practical examples on Green Public Procurement, where LOF is in several cases utilized as a means to promote sustainable development. The examples illustrate successful implementations of green tenders within the catering sector, and they provide guidance for others (EC, 2015; Foodlinks, 2013). A compilation of the arguments for and against is presented by Kneafsey et al. (2013).

When the food services are publicly funded, the food purchases are constrained by the law on public procurement (Finlex 2007). To secure equal opportunities for the suppliers, the law presumes that the tender calls are put out for competitive bidding (EU, 2014). In order to give the LOF suppliers a
chance to be chosen, the tender calls need to be carefully designed. This is especially true, if “local organic” is stressed, because “organic” as such is an acceptable criterion. Currently the 2007 law is being revised, and some significant changes that improve the position of the SFSCs are expected, one of them being that the price as the only purchasing criterion needs to be particularly justified.

1.2 Conceptual frame
Increasing the use LOF and stressing the seasonality of the food items as means to sustainabilize food production and consumption are among the principles of the Finnish food policy (VNK, 2010). The government has launched two programs to increase the use of both organic and local food (MAF, 2014; VNK, 2014), and the public actors are obliged to act as path breakers leading the development (ME, 2009; ME, 2012; VNK, 2010).

In this connection, “local food” refers to genuinely short supply chains, i.e. production, processing and consumption are geographically close to each other. In addition, the focus is on basic food items of local origin. These are to be distinguished from “locality food” or the pricy special products that are marketed as representing a certain region or certain traditional production mode, and the consumers of which may be very far away from the site of production (Risku-Norja & Løes, 2016).

In Finland, the food business is heavily concentrated. Two major actors have about 80 % of the market. As market leaders they have the say which products end up to the retail stores and on what price. Without either one of the major actors’ consent, the alternative SME:s have difficulties in getting their products to the market. Their competitive position is, therefore, weak and the economic situation of the small producers is often insecure. Contracts with institutional customers are potentially important. They provide secure income, and the entrepreneurs can shift the focus from marketing to developing their core activities.

Public food purchases are constrained by the legal framework of the EU law on public procurement. The law obligates the contracting authority to take into account criteria other than only the price. It encourages the use of most economically advantageous tendering (MEAT), which ensures taking into consideration a variety of criteria (EU, 2014). They may deal with overall impacts on regional economy, employment and entrepreneurial activity and on environment, various specific quality attributes such as nutritional requirements, packaging size and their recyclability, delivery times and frequency, freshness and eventually organic production. The law, thus, combines the voluntary EU directives of Green Public Procurement (GPP- EC, 2008) focusing on environmental criteria and Sustainable Public Procurement (SPP - EC, 2010) aiming at balancing economic, social and environmental aspects of sustainable development (EC, 2016).

1.3 Research task
The research task is to explore the tendering process and its development from price-based competitive bidding towards anticipatory dialogue and interaction among the suppliers and catering personnel. Attention is paid to the drivers and bottlenecks in implementing the LOF concept in Kiuruvesi and to the interplay of the tendering process and the SME:s’ position in the highly competitive food market.

2 Materials and methods
The research was carried out as a case study with the public catering of the Kiuruvesi municipality as the case. The data on the municipal catering were obtained mainly from the Kiuruvesi official internet web page, from one research article (Tikkanen, 2013) , from four reports dealing with the status of local and organic food in municipal catering in Finland (Muukka et al., 2009), impact of LOF on regional economy (Vänttinen & Korpi-Vartiainen, 2010), implementation of the LOF concept in Kiuruvesi (Risku-Norja, 2015a) and with a supplier’s experiences from competitive food market and co-operation with the municipality (Risku-Norja, 2015b). The main data source was the semi-structured interviews carried out in 2014. There was one group interview with the representatives of the municipality, catering service and its customers, and three individual interviews, two with head of
the Kiuruvesi catering service and one with the representative of the suppliers, the Järvifisu company (Lake Fish co.). In order to improve the outcome of the interviews the questions together with a short summary of the data compiled by that time from other sources were sent about a week in advance to the interviewees. The interviews were tape recorded, and the recordings were analyzed using Atlas.ti qualitative data analysis software. The conclusions of the interviews were verified by the interviewees in 2015.

4 Results

4.1 General description of Kiuruvesi municipality

The Kiuruvesi municipality is a rural town located in the central Finland, in the province of North Savonia (Figure 1.). The land area is 1 328 km², with the inland waters included, the total area is 1 423 km². With seven inhabitants per square kilometer, the municipality typologically represents sparsely populated rural areas, the other municipal types being core rural areas, urban adjacent rural areas and urban areas (Malinen et al., 2006).

The population development has long been declining: in 1980 there were about 12 000 inhabitants, today the number is about 8 800. The share of the people in active working age and the level of education is somewhat lower than in Finland in average, whereas 14% the unemployment rate is higher compared to the 11% average in Finland, (Statistics Finland, 2015).

The economic structure is strongly biased towards primary production. It provides about 26% of the jobs for the inhabitants, the average in Finland being 3.7%. Because of the natural circumstances, the Kiuruvesi region has been for decades among the major agricultural production areas of the country, the climate and soil are especially suited for beef and dairy production.

4.2 The LOF strategy of Kiuruvesi municipality and its implementation

Emphasizing ecology, ethics and sustainable development in life style and in productive activity, the Kiuruvesi municipality has profiled itself as "Finland’s Capital of Sustainable Development" ¹. The LOF concept adopted in municipal catering is an important ingredient of this brand, and LOF strategy has been determined developed since the 1990s. In the municipality’s strategy LOF is accounted for by stating that the proportion of the LOF items shall be increased gradually in order to enable local producers to accommodate their supply to the needs of the municipal catering (Risku-Norja, 2015a). Seasonality is important part of the LOF concept, and it is accounted for; in the winter time instead of fresh tomatoes, lettuce and cucumber various root vegetables are used. The strategy is founded on the rich regional production structure of agriculture. It was adopted as one means of enhancing the attractiveness of the municipality, which is located in a fairly remote area and has faced a declining population development over several decades.

The impetus to prioritize LOF in the municipal catering dates back to the 1990s. At that time, the municipality was economically in a very difficult situation, and something had to be done to reduce the costs of the municipal services, including the food services. The initiative for LOF came from the

¹ http://www.kiuruvesi.fi/Suomeksi/English
actors of the educational sector. In addition to the primary school of the municipal centre, there were 11 primary schools in the villages. The options were either to centralize the catering services by giving up the preparation kitchens in the village schools, or to do things in some other way differently. The catering personnel in the village schools actively advocated the possibilities to continue with the decentralized model utilizing the possibilities provided by the local farms. It was seen as a matter of survival of the village schools and, along with them, as a matter of survival of the villages themselves. The headmasters and the teachers of the schools as well as the village people supported the decentralized model. In fact, in the village schools, the kitchens had always used products from the nearby farms, sometimes from own school garden and from the forests. However, the approval of the motion initiated the determined development of the LOF strategy. In 2000, the board of the biggest of the village schools, the Rapakkojoki school with 60 pupils, brought forward an official motion to the municipality’s board of education, offering to become a pilot in use of LOF. The school authorities approved the motion and the municipal council supported their decision. With the efforts of the head of school catering service, the LOF concept has been gradually expanded so as to cover all schools in the municipality.

With organizational re-arrangements in 2010, all municipal catering services were brought within a single administrative unit. There are now two central kitchens, one serving the schools and one serving the customers of the social and health sector. The latter is the responsibility of the Northern Savonia Federation of Municipalities, and the federation buys the meal services from the Kiuruvesi municipal catering. Today there are only four village schools, and these still have their own preparation kitchens. The LOF concept is applied in school catering, whereas price-competitiveness of food purchases is emphasized in social and health care. In 2014 the share of LOF comprises in schools 43% and in the entirety of the municipality 23% of the value of food purchases. In consequence of the recent organizational re-arrangement in 2015 the two central kitchens were merged into one.

4.3 The drivers and bottlenecks in use of LOF

One of the main restrictions in use of LOF is the availability of suitably pre-processed products. Initially the LOF products were locally available potato and other tubers, vegetables, berries and to some extent, also cereals, and the producers brought them directly from the farms into the school kitchens. The products were unprocessed, and this caused problems in the beginning both in terms of the violations of the hygiene regulations and in terms of the extra work required in the kitchens. In the beginning, an extra 5% resource allocation in the municipal budget was allotted for the catering sector because of the increased workload.

Today, when all food purchases are concentrated into one administrative unit, the volume of the purchases is large compared to the volumes needed in single schools. Another restriction is the operational environment of the municipal kitchens: the kitchens do not have preprocessing facilities which limits the repertoire that can be used. Therefore, small scale preprocessing e.g. slicing, peeling, chopping and grating the root vegetables, of the products before they enter the kitchen, is necessary. The availability, thus, needs to be secured both in terms of the volumes and preprocessing.

Price is also important, but the price constraints can be to some extent compensated with new recipes and careful menu planning. It has required reformulation of the menus and recipes so as to accommodate them to the availability of local raw materials. Efforts have also been made to substitute commercial ready-made meals by developing corresponding products made on the premises. In 2000, the whole catering personnel in the Kiuruvesi schools participated a training course on increasing the use of organic food in the municipal kitchens.
Over the years the repertoire of local products has increased and today, there are also a variety of local conventional and organic products. The purchased products have also been pre-processed so as to comply with the facilities of the institutional kitchens.

Regarding the fate of the LOF strategy, the powerful actor is the municipal council, because the economic resources allocated for the catering sector is decided in the municipal budget. The positive attitude of the municipal manager towards LOF has been important and has contributed to the adoption of the concept. A contributing factor was also the fact that the decision-makers were willing to accept two kinds of approaches to providing the food services: the LOF concept was integrated into the practicalities of school catering, whereas the social sector continued as before.

There are several bottle necks in use of LOF in Kiuruvesi. The fairly northern location of the municipality very much restricts the repertoire of local agricultural products. The choice of locally produced items is rather small, and the choice of items suitable for public catering is even smaller. Another problem is that the small producers cannot supply the volumes that are needed in public kitchens. The heavily concentrated structure of the Finnish food sector focusing on economies of scale poses a big problem: Even though Kiuruvesi is in the midst of the main primary production areas of dairy and beef, the great majority of the products are processed elsewhere in large units. Therefore, the supply chains of the beef and milk products are not short, and they are not considered as being of local origin.

4.4 Development of the tendering process
When the LOF concept was introduced, each school had its own kitchen, and the volumes needed for each school were moderate. The suppliers were found via announcements in the local newspaper and via personal contacts. Because the volumes were small, the products could be purchased without the burdensome process of competitive bidding.

Today all purchases are centralized. Compared to the beginning, much more attention is paid to the competitive bidding process and information both on the process and its practicalities and on the needs of the catering service is delivered to the potential suppliers in advance before the tender calls are opened.

Anticipatory dialogues before the tender calls are put out have become a formalized part of the procedure. Before the tender calls are put out, the head of the catering service sits down with the interested parties. In the tender calls, a number of criteria are defined and the potential suppliers are informed about the requirements in face-to-face discussions. The aim is to formulate the tender calls in such a way that local products can be chosen among the whenever possible. The producers also receive all necessary information about the volumes, delivery, degree of processing, packaging and required product qualities, so the potential suppliers know what is expected from them and to what they commit themselves when they sign the contracts.

This anticipatory dialogue is experienced as extremely useful both by the catering personnel and the suppliers. The dialogue is continuous, and mutual feed-back is given also ad hoc during the contract periods or when need arises. Often this communication deals with practical matters. The supplier may have problems in keeping the delivery schedule or providing the agreed volume, or the catering sector may have unexpected changes in its demand. The development needs, uprising questions and overall experiences are discussed in anticipation of the next tender call and in view of the necessary product development. The co-operation among the municipal catering and its suppliers is based on mutual learning.

5 Discussion
In Kiuruvesi, LOF concept has been determined developed over more than 15 years. National food policy encourages the use of LOF and obligates the public sector to lead the development (MAF, 2014; VNK, 2014). However, without concrete goals and deadlines for realization of the goals, they are only loose recommendations. Therefore, the most important steps are taken at local level.
municipal decision-makers and the catering personnel in Kiuruvesi are fully committed to the concept, the idea has been integrated into the municipal strategy and necessary resources have been allocated to implement the strategy.

The municipality's food services are organized under two sectors, education and social & health care. The municipality is responsible for school food, whereas the Northern Savonia Federation of Municipalities is responsible for social & health care. The two authorities have different views regarding the LOF concept. The disagreement culminates in the short term cost savings aimed at by the federation, whereas the Kiuruvesi actors stress the long-term benefits for the regional economy and the significance of the meals as part of preventative health care of the inhabitants and of good care of the customers of the social & health care. The municipal board has accepted the dual situation, and this has led to riding on two horses: the share of the LOF products used in the central kitchen preparing the meals for the social and health care is much lower than in the kitchen preparing the schools meals. There is persistent pressure for cost savings, and with the merger of the two central kitchens into one, the discussion on the fate of the LOF strategy has been opened up again. The impact on the use of the LOF items remains to be seen.

The LOF strategy in Kiuruvesi is based on the gradual increase in use of LOF, and this is dictated by the availability of these products. It is essential to collaborate with the suppliers, and implementing LOF has gone hand in hand with emergence of local suppliers (Risku-Norja, 2015a). Co-operation has been developed especially in the anticipatory dialogues that are carried out among the head of the catering service and the potential suppliers, before the tender calls are put out.

In Finland, the food business is heavily concentrated. Two major actors have over 80% of the markets. As market leaders they have the say as to which products end up to retail and at what price. Without either one of the major companies' consent, the alternative SMEs have great difficulties in getting their products to the market. The economic situation of the small producers is, therefore insecure, and often very difficult, and their competitive position is weak. Even though in some cases the entrepreneurs could get a better price by selling the products via retail, the long-term contracts with the municipality give them leeway to plan their activity. This frees resources from marketing and deliveries, and the suppliers can focus on the core business. The regular income also carries the enterprises over quiet periods. The public actor, thus, provides a kind of protected space for the local suppliers, who otherwise have difficulties in entering the highly competitive Finnish food market.

The MEAT approach is important for SMEs. This is especially true, if “local organic” is stressed, because “organic” as such is an acceptable purchasing criterion. Various quality measures have to be emphasized to allow for procurement of LOF. Formulation of the purchasing criteria is part of the anticipatory dialogue. The procedure has also led to recipe innovations and to co-production of new products in view of the needs of the public catering. With the anticipatory dialogue the relationship between the catering staff and the suppliers has gradually developed from mere business relations towards strategic partnership. However, it is also important to find new suppliers both in order to expand the repertoire of the LOF products and to make sure that there is true competition between the suppliers; with only one supplier prices tend to get high.

Over the years, the use of LOF products has gradually increased as the entrepreneurs have been able to fulfill the needs of public catering and, as new entrepreneurs have emerged. Since the kitchens do not have facilities nor personnel for the time-consuming raw material preparation, developing small-scale pre-processing has been an important prerequisite for increasing the share of LOF items in the municipality’s food services.

The most critical constraint is the poor financial basis of the municipality. Like other municipalities in Finland, Kiuruvesi has difficulties in coping with its responsibilities towards the inhabitants. The municipal catering service is statutory. The costs of the service are not paid by the customers directly, but they are covered by the municipality’s tax income. The service needs to be cost-
effective, and it needs to be accommodated within the budget frame of the municipality. The service is, thus, not aiming at profits, rather, “profitability” means economic feasibility in the present circumstances. Because the age structure of the population is biased towards older people and the unemployment rate is fairly high, there is a growing demand for municipal services. However, for the same reasons the tax income is constantly shrinking. There is an economic “sustainability deficiency”, i.e. the municipality responsibilities exceed the tax income. Generation change in the enterprises may also present a threat. Some of the present suppliers are approaching retirement age. The younger generation is not always interested to take over, and in some cases the continuation of the activity is at stake.

So far, the LOF concept has been shown to be workable. It has brought new vigour to the food sector in the Kiuruvesi region, and it has fused faith also in the future of the sector’s livelihood. The LOF concept has paved the way for new ideas also in the regional economy. The guiding principle in Kiuruvesi is to prioritise local products in order to improve the municipality’s economy. This prioritisation does not apply only to food purchases, but to procurement of all municipality’s products and services. For the public sector, the social issues are naturally important. Profitability, employer retention, increasing the share of LOF and a firm economic basis are all considered as important. The LOF strategy is seen as an important impulse forentrepreneurial activity. It, needs to be profitable for the entrepreneurs, but it needs to be profitable also for the municipality in terms of the costs of the catering services. In food purchases, the prioritization order is local organic, local, domestic organic, domestic and imported organic. Price constraints somewhat restricts the use of organic products (Risku-Norja, 2015a).

6 Conclusions
Increasing the use of LOF in municipal catering is a slow process, and the most important steps are taken at local level.

It requires local policy makers’ strategic decisions and allocation of adequate resources.

It also requires strong commitment of the catering personnel to long-term development work.

Introducing anticipatory dialogue among catering staff and local suppliers as an essential ingredient of the purchasing procedure strengthens SMEs potential for success in tender calls.

In the competitive food markets, public procurement can constitute a protected space for the local SMEs to develop.

Acknowledgements: The author acknowledges the financial support for the HealthyGrowth project provided by transnational funding bodies, being partners of the FP7 ERA-net project, CORE Organic II.

References:


