

Key Value Drivers for Sustainable Restaurant Business Models

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Abstract

This paper takes an exploratory approach in the field of sustainable sourcing and seeks value drivers that lead to successful operations in the restaurant business. The two pillars the research is based on are an extensive literature review and empirical research in form of three questionnaires and a semi-structured interview, all drawing information from business owners and an executive chef. The combined learning drawn from these two pillars are then critically assessed and six value drivers in two categories are identified. These categories are operational value drivers, including *operational agility, focus on core activities* and *choice of suppliers*, and customer value drivers including *price premiums, positioning* and *promotion methods*.

Affidavit

I hereby affirm that this Bachelor's Thesis represents my own written work and that I have used no sources and aids other than those indicated. All passages quoted from publications or paraphrased from these sources are properly cited and attributed.

The thesis was not submitted in the same or in a substantially similar version, not even partially, to another examination board and was not published elsewhere.

20. 1. 2017

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1. Introduction

1.1 Research problem and research question

Sustainability has been a buzzword of the past years, even though there is no sole definition used for it. Sustainability or sustainable development can be defined as a form of growth that takes into account future generations' need for growth (WCED, 1987 as seen in Young & Burton 1992), however, this definition is too unspecified to help businesses understand the key areas to focus on when engaging in sustainable practises. If we turn to the food industry, we can see practices associated with sustainability such as organic farming, sustainable aquacultures, local sourcing or waste management. The focus of this paper lies on local sourcing as the main sustainable practice in the restaurant industry.

Although the topic is widely discussed in practice as well as in academia, specific factors of the sustainability or localism are researched in detail, whereas the issue must be discussed holistically in order to provide a full understanding to restaurant businesses eager to engage in sustainable practices.

The main aim of this paper is to explore and evaluate the key drivers that create value in the sustainable restaurant business. The findings will provide a base knowledge for businesses and point out the direction for future research.

Therefore the research question can be formulated as *'What are the key value drivers that support local sourcing within successful restaurant business models?'*

1.2 Methodology

With exploration of a relatively new phenomenon as its main goal, this paper utilises extensive literature review that is combined with industry opinions in form of a semi-structured interview and questionnaires completed by business owners and an executive chef. The main reason of this methodology is twofold. Firstly, the

questionnaires/interviews provide an immediate second opinion on the theoretical concepts; secondly, as a substantial part of the literature is U.S. based and the primary research is collected from the UK, Spain and Hungary, the research will be somewhat diversified.

The first part of the paper therefore will consist of the literature review that dissects various aspects of sustainability in the food business and introduces the reader to the core concepts while zooming in on the aspect of local sourcing as a sustainable operational tool.

Following this, the main findings of the primary research will be discussed as well as critically assessed in light of the existing theoretical concepts.

1.3 Glossary

Business model

A specific plan and architecture of a business that describes how value is created within the organisation.

Business model innovation

Reshaping the structure of a business in order to achieve greater efficiency, increased profits or to reach a different target.

Culinary supply chains

Refer to the supply chains of food businesses.

Ethical sourcing

A sustainable sourcing method that keeps the welfare of all the value chain actors in mind. Ethical sourcing is most common in case of tropical produce such as coffee, cocoa or bananas due to the unequal profit distribution along the value chain.

Food business

Any company/firm/organisation that handles or prepares foodstuff, regardless of their position in the supply chain, they can range from producer to restaurants.

Green/sustainable practices

A summary of all practices that businesses (here restaurant) employ in order to be sustainable.

Local food

“Food produced, processed and sold within a certain geographical radius.” (FSA 2003 p. iii)

Local food system

Refers to the interconnection between within the different actors food business that are operating within the same region.

Local sourcing

An increasingly popular sourcing method for food businesses. It is considered a sustainable business activity mainly due to the assistance of the local economy and reduced food mileage.

Organic produce

Refers to the method of production/farming that avoids artificial additives such as pesticides. Can also refer to the avoidance of GMO (genetically modified organisms).

Organisational agility

The ability for a business to maintain a lean business model and to swiftly react to changes.

Restaurant supply chain

Food supply chains specific to restaurants.

Restaurants' core activities

The main tasks and responsibilities a restaurant has to concentrate on in order to create customer and business value.

Seasonal supply

Food supply defined from a localised point of view that incorporates the changing supply (type, quantity and quality of food) depending of the time of the year.

Supply chain theory

Concentration on the interrelationship among supply chain actors in order to achieve organisational efficiency and create business value.

Sustainability

A form of resource management that seeks to minimise wastage of resources and operates with the need of future generations in mind. Sustainability can also refer to the efforts of minimising the negative social impact of firms.

Sustainable sourcing

The application of a sustainable mind-set to a firm's sourcing activities. Can refer to various activities in the food business.

Value

Value, or company value refers to the monetary gains a business is able to achieve through its operations.

Value drivers

The key aspects and tools businesses have to concentrate on in order to create company value.

2 Literature Review

2.1 Sustainability in the food business

Sustainable development in a general context is in most cases defined as a *“Development that meets the needs of the present without compromising the ability of future generations to meet their own needs”* (WCED, 1987). Looking for industry-specific definitions or trends, one can see that there is a wide array of practises that can make the food industry more sustainable or ‘greener’. Sustainability and green practices in the food industry are associated with numerous activities. In the following, some of these associations will be briefly introduced in order to provide an overview of the areas sustainability can cover in the food business.

Organic farming and produce have been in focus for the past years among researchers as well as professionals in the food industry. Organic farming mostly focuses on the method of production rather than the final product; nonetheless, produce grown using organic methods is often referred to as organic food. The definition of organic produce differs from country-to-country and agency-to-agency; however, usually definitions revolve around the following components: treatment of animals, use of pesticides, sustainable farming methods such as crop rotation, use of antibiotics and the use of synthetic materials (USDA, 2016; Food Standards Agency, 2012). A recent study showed that customers rated availability of organic food on restaurant menus highly important among sustainable restaurant practices (Wang, 2012). The same study also highlighted that customers associate the avoidance of genetically modified food with sustainability (ibid.).

Certain views on green practises target areas not exclusive to the food business. According to Wolfe and Shanklin (2001, p. 209) green practices are *“actions that reduce the impact on the environment, such as eco-purchasing or recycling”*. Building on this definition, one can find a number of practices that the food and restaurant industry could embrace in order to reduce their environmental impacts. Apart from the two examples already included in the definition, investments targeting the reduction of energy usage in restaurants or on farms could be mentioned, as both use substantial amounts of energy (MDEQ, 2009; Ozkan, Akcaoz, & Fert, 2004). Embracing renewable energy sources or replacing standard kitchen equipment,

restaurants, like any other businesses, can reduce their energy consumption as well as their impact on the environment. It can be argued whether these factors are at the core of the restaurant business or not, but in either case: if they lead to a reduced impact on the environment they should be mentioned among sustainable practices. A related study investigated green practices used by restaurants and customers' perception of these practices. The results showed that customers found non-industry specific items highly important, such as efficient heating and cooling systems, environmentally friendly cleaning supplies as well as the usage of biodegradable containers (Wang, 2012).

Moving towards restaurants' core activities, one of the most important activities to be mentioned is sourcing. Where restaurants or any other food-businesses source their ingredients from is crucial both in terms of quality and impact on the environment. A number of sourcing methods concentrate on sustainability and being 'green', however in this literature review two areas will be discussed: Sustainable sourcing of fish and ethical sourcing.

Sustainable sourcing of fish is an important factor to take into consideration and one that is receiving more and more attention. Costanza (1998) mentions overfishing among the five most prominent issues regarding our oceans. Overfishing can refer to the sheer number of fish extracted from the oceans as well as extensive fishing of popular species, such as salmon or cod. Overfishing in any case can lead to grave consequences, as studies have highlighted its aggravated negative impact on the ecosystems (Möllmann et al., 2008; Murawski, 2000). Partly as a solution to these issues, aquacultures and fish farms are on the rise. According to (Goldburg, Elliott, & Naylor, 2001; The World Bank, 2013) aquacultures contribute increasing amounts of seafood to the global seafood supply. There are, however, a number of sustainability related issues connected to aquacultures. Scientists have criticised a number of fisheries for using chicken-based feed, which of course is not the natural nutrient for fish (Elsaidy, Abouelenien, & Kirrella, 2015). Some fisheries have also been known for growing genetically modified fish (Bartley, Rana & Immink, 2000). Aquacultures are being discussed evermore frequently and one can see positive examples for sustainable fish farming (Frankic & Hershner, 2003). Restaurants focusing on green

practices must pay attention when sourcing seafood as customers were shown to care for sustainable seafood when dining in a green restaurant (Wang, 2012).

Ethical sourcing has components that have already been mentioned in the previous sections such as the aim to reduce the environmental impact of trade, however, it can also be connected to further elements such as fair trade or rural development. A definition of ethical sourcing found on Sanctus Mundo's website is *"ensuring that the products being sourced are created in safe facilities by workers who are treated well and paid fair wages to work legal hours. It also implies that the supplier is respecting the environment during the production and manufacture of the products."* Some crucial elements can be noted from this definition are fair treatment/payment of workers, environmental consciousness. To compare this with another viewpoint; Doane (2001) identified the following focuses of ethical consumption: *human rights, animal welfare and protection of the environment*. One of the most renowned movements in ethical trade is the fair trade movement, which according to Reynolds (2000) operate with the motivation of developing alternative trade circuits by concentrating on social and environmental sustainability. Products often targeted by fair trade movements are exotic produce such as coffee, tea or cocoa, as they are sourced most often in developing countries, therefore the length of the supply chains leads to reduced bargaining power of the original producers. Fairtrade International seeks to aid producers by enabling them to receive a 'Fairtrade certification' as well as guaranteeing them a 'Fairtrade minimum price' (Fairtrade International, 2016). The main component connecting ethical trade to sourcing in the food industry is the businesses' motivations to associate themselves with sustainability by sourcing certified produce. One might consider ethical trading to be a niche in the food business, however some examples prove otherwise. Starbucks, for instance, one of the largest coffeehouse chains, has been in partnership with Conservation International, a non-profit organization concentrating on sustainability, since 1998 (Kissinger et. Al., 2013). Recent study suggests *"some coffee buyers are using Fair Trade labels largely as a vehicle to capture markets and certification largely as a mechanism to enhance traceability."* (Reynolds, 2009, p. 1090) explaining companies' motivations for participating in the fair trade movement.

Moving on in the enumeration of sustainable practices in the food business, the notion of local sourcing has to be introduced. Local sourcing is one of the most popular trends in the culinary field, and one that will bear an elevated importance in this paper. Local food as numerous other phenomena in food sustainability has no single definition. The FSA (2003 p. iii) refers to local food as “food produced, processed and sold within a certain geographical radius.” The distance, however, tends to change in different businesses and organisations. The Macmillan Dictionary (2008) describes a ‘locavore’ (someone who eats locally grown produce) as someone who strives to consume food grown within a 100-mile radius. Durham et al. (2009) indicate in their research that most consumers do not agree with food originating from within a 100-mile radius to be local. In order to tackle the contradiction and non-agreement between definitions, the term “flexible localism” was created; which refers to the fact that within different surroundings (such as cities or the countryside) varying definitions of ‘local’ may exist (Ilbery & Maye, 2006, as cited in Martinez, 2010). According to flexible localism, a certain radius as well as the state of origin could define local food. In smaller countries, the notion of food being ‘domestic’ could be perceived as local. The lack of a general definition could be derived from the fact that there are various contexts in which the definition should stand, so it might be beneficial to define local food in individual cases (depending on the country; whether the food business is in a city or in the countryside; whether they have easy access to local producers). In general, restaurants and other actors in the food business that work with local produce should be able to define what local means for them as long as they can justify it to their consumers. The closest definition to this is provided by Smith et al. (2008, p. 290), in their research they define local food products as *“food or beverages that are produced in the region being visited and are branded and promoted as such.”* The reason local sourcing is associated with sustainable practices in the food industry is its number of positive effects on the environment as well as on local or rural development. Often associated with local sourcing are ‘food miles’ that refer to the distance food has to travel until it reaches the final consumer (Macmillan Dictionary). Researchers argue, however, that food transportation contributes significantly less to overall greenhouse emissions compared to food production (Weber et al., 2008). In their paper they argue that in order to reduce the environmental impact of food, people

should seek a dietary change, as the production of some food groups contribute significantly more to greenhouse gas emissions than others (e.g. production of red meat contributes 150% more than the production of chicken) (Ibid.). A recent study done by the European Commission explores the characteristics of short, local supply chains within the European Union (Kneafsey et al., 2013). According to this research, the largest economic impact that Short Food Supply Chains (SFSCs) have is to be found in rural development. The underlying reason of this positive effect is that SFSCs tend to have a larger multiplier effect and therefore benefit the local community in which the services are consumed or where the goods are sold (Ibid.). This factor is highly important from a general sustainability perspective as well, as it does have useful governance implications. Even-though this might be appealing to businesses that are dedicated to sustainability and local development, it does not necessarily appeal to businesses that are driven by solutions focused solely on their own efficiency and profits. However, the main takeaway from the above mentioned research, the shortening of supply chains can lead to efficiencies that will also attract strictly profit-driven businesses while providing customers with the benefits of local food and supporting local producers in the local economy.

In the following section, this paper places its focus on the basics of culinary supply chains, as well as is gathers some examples of supply chain innovation. This will provide a better understanding of alternative supply chain solutions in the food business.

2.2 Culinary supply chains and business model innovation

In order to discuss the possible changes and adaptations in culinary supply chains and in order to better accommodate the usage of local produce, the basics of culinary supply chains will have to be introduced. Referring to the research done by Smith et al. (2008), who sought to give a preliminary insight into supply chains and its actors in their paper, restaurants were put into the category of buildings and structures as facilities in the “Typology of Culinary Tourism Resources” (refer to figure 1).

TYPOLOGY OF CULINARY TOURISM RESOURCES			
Facilities	Activities	Events	Organizations
<u>Buildings/Structures</u> <ul style="list-style-type: none"> • Food processing facilities • Wineries • Breweries • Farmers' markets • Food stores • Food-related museums • Restaurants 	<u>Consumption</u> <ul style="list-style-type: none"> • Dining at restaurants • Picnics utilizing locally-grown produce • Purchasing retail food and beverages • Pick-your own operations 	<u>Consumer Shows</u> <ul style="list-style-type: none"> • Food and wine shows • Cooking equipment, kitchen shows • Product launches 	<ul style="list-style-type: none"> • Restaurant classification or certification systems (e.g., Michelin, Taste of Nova Scotia) • Food/wine classification systems (e.g., VQA) • Associations (e.g., Cuisine Canada, Slow Food)
<u>Land uses</u> <ul style="list-style-type: none"> • Farms • Orchards • Vineyards • Urban restaurant districts 	<u>Touring</u> <ul style="list-style-type: none"> • Wine regions • Agricultural regions • City food districts 	<u>Festivals</u> <ul style="list-style-type: none"> • Food festivals • Wine festivals • Harvest festivals 	
<u>Routes</u> <ul style="list-style-type: none"> • Wine routes • Food routes • Gourmet trails 	<u>Education/Observation</u> <ul style="list-style-type: none"> • Cooking schools • Wine tasting/education • Visiting wineries • Observing chef competitions • Reading food, beverage magazines and books 		

Figure 1
Typology of Culinary Tourism Resources, adapted from Smith, S. L., & Xiao, H. (2008) p. 290. Culinary tourism supply chains: A preliminary examination. Journal of travel research, 46(3), 289-299.

In this above-mentioned research, the focus was placed not solely on restaurants but on three types of services within the food business (restaurants, festivals and farmers' markets). Figure 1, therefore, also provides a wider scope to overview the different actors operating within the culinary field.

As discussed in the previous sections, localisation of suppliers for food businesses tends to lead to shortened supply chains. Smith et al. (2008) also discuss the related idea of 'supply chain theory in culinary tourism', which refers to the interrelationship between producers and distributors that work together to create a joint culinary experience for the end customers. This, essentially, is the recognition of supply chain management as a strategic tool that can be used to create efficiencies and ultimately, a competitive advantage. After having established the basis for the supply chain concept, they go on discussing it in contrast to the vertically integrated approach. By the latter approach, a business would prefer to own multiple links of the supply chain by either acquiring companies or by creating new ones, both of which require large capital investment and lead the company to inflexibility, especially in the restaurant business (Ibid.). Shortening supply chains, and developing flexible and reliable relationships with suppliers is desirable for

companies, which coincides with the very basis of supply chain management theory (Mentzer et al., 2001) as well with the philosophy of the local food movement.

Based on discussions with representatives of the restaurant industry in Canada, Smith et al. (2008) established a detailed example of a restaurant supply chain (refer to figure 2).

RESTAURANT SUPPLY CHAIN	
3.	The culinary tourist
3.1.	A restaurant
3.1.1.	Food and beverage wholesalers and distributors—may include supplies obtained through franchise operations or cooperatives
3.1.1.1.	Food processors
3.1.1.1.1.	Food producers
3.1.1.1.1.1.	Seed distributors
3.1.1.1.1.2.	Livestock breeders/distributors
3.1.1.1.1.3.	Farm chemicals, fertilizers
3.1.1.1.1.4.	Business services (e.g., insurance, accounting)
3.1.1.1.1.5.	Utilities
3.1.1.1.1.6.	Fuel
3.1.1.1.2.	Abattoirs
3.1.1.1.2.1.	Livestock breeders
3.1.1.1.3.	Marketing boards
3.1.1.1.3.1.	Wheat, dairy, poultry producers
3.1.1.1.4.	Suppliers of other ingredients, such as chemicals for preservatives
3.1.1.1.5.	Packaging suppliers
3.1.1.2.	Shipping companies
3.1.1.2.1.	Customs agents
3.1.1.3.	Warehousing
3.1.2.	Other supplies, including consumables (e.g., paper supplies, cleaning supplies) and semidurables (e.g., dishes, glassware, linens)
3.1.2.1.	Manufacturers
3.1.2.1.1.	Transportation
3.1.2.1.2.	Warehousing
3.1.3.	Business services (e.g., printers, marketing, insurance, legal)
3.1.3.1.	Graphic designers (e.g., menus, advertisements)
3.1.3.2.	Consultants (e.g., menu development, market research, business plan development)
3.1.4.	Financial services (e.g., banks, investors)
3.1.4.1.	Accountants
3.1.5.	Credit card companies

Figure 2
Restaurant Supply Chain, adapted from Smith, S. L., & Xiao, H. (2008) p. 297. Culinary tourism supply chains: A preliminary examination. *Journal of travel research*, 46(3), 289-299.

The supply chain displayed in figure 2 is a very elaborate one, showing the numerous players a restaurant has to be in contact with in order to source all of its necessary goods and services. Naturally the example is a bit excessive and the number of suppliers would change from restaurant-to-restaurant, perhaps with significantly fewer sources. The figure included merely shows how many actors could be present in an extended restaurant supply chain. As it is imaginable, the larger number of supply chain actors lead to increased energy spent on logistics which in turn could lead to the above discussed loss of organisational flexibility (Mentzer et al., 2001).

Two prominent questions in local sourcing for restaurants are that whether the classical restaurant supply chain is suited for the use of sustainable practices, or whether it could be reformed in some way to be able to accommodate local sourcing practices. Research has been done to discover business opportunities in local food supply chains. Pearson & Bailey (2008) discuss the room for development for farmers in terms of products and services, which could lead to increased demand for their products, thus making local sourcing more attractive for restaurants and other food businesses. In their research they show a difference between local food businesses in the UK and in Australia. Their UK example is True Food Co-op, which they claim has successfully created a short supply chain and developed a stable customer base (Pearson & Bailey, 2008). The research also mentions the success of food hubs, which are, in a sense, alternative food supply chain solutions, whereby individual farmers or suppliers contribute their produce to the food hub, which acts as a distributive body and supplies individuals, restaurants and other customers (Ibid).

Building on the idea that traditional restaurant supply chains have to be altered in order to efficiently adapt local sourcing, one must think in terms of supply chain innovation. Whether talking about the restructuring of an existing business or creating a new one, a new business model with a new supply chain solution can benefit businesses if done appropriately. A study in the Harvard Business Review discusses the elements of successful business models, touching upon multiple aspects within numerous industries (Kim & Mauborgne, 2000). Gathering information of a large database containing more than 100 companies, they identify utility, price and business model as the three key components of any viable business. All three aspects desire more attention, however, for the purpose of this paper 'business model' will be elaborated. In accordance with research mentioned in the previous sections, they stress the importance of lean, flexible and agile business models. They also claim that businesses working closely and efficiently with partners need to take into account three different criteria: speed, cost and quality (Ibid.). However trivial the criteria may sound, their implication in the restaurant business should not be overlooked. These may be the general criteria when choosing conventional suppliers, they are even more important to concentrate on when

innovating supply chains or when deciding which local suppliers to work with, as they often lack one or more of these conditions.

To offer an excursion in form of introducing a radical and with hindsight, unsuccessful business model innovation from the restaurant industry, the curious example of Ferran Adrià's *elBulli* will be briefly introduced. A paper done by Svejnova et al. (2010) analysed Ferran Adrià's (chef and co-owner) business development a year before the restaurant closed down permanently. This example is an excursion, because Adrià wanted to achieve total creativity in his business, which can be seen as a highly abstract goal, however, the many business activities and outcomes of his project are worth to be mentioned. Adrià is a well renowned expert in the culinary world and is often mentioned amongst the best chefs in the world. His idea of using creativity as the main strategic resource in his business resulted in evolving his restaurant into a creative workshop, shifting the core activities from operations to innovation. As innovation required a substantial amount of funds, additional to the high prices, the restaurant offered cooking courses to provide funds for the restaurant's non-core activities. After some time, however these courses were discontinued and the business started to face financial issues before closing down permanently in 2011 and being transformed into a culinary research centre (Svejnova et al., 2010). What is important to note from the example of *elBulli* from a business innovation perspective, is that no matter how radically new and potentially successful a business plan is from a higher mission perspective (for Adrià – using creativity to revolutionise gastronomy, in which he was successful), the core activities of any business must never be neglected. Perhaps in cases of business model innovation where the mission of the business does not in any way can be aligned with the core activities, a non-profit oriented approach (e.g. a research centre with government funding) would be a more appropriate solution.

Poulston & Yiu (2011) conducted a research in the context of organic sourcing and focused on the question whether restaurants' main motivations are financial or are they embedded in principles. One of their findings (based on interviews) is the balance between financial sustainability and values. According to some of the interviewees, financial sustainability was necessary to maintain any other form of

operation; therefore they found the emphasis on core activities any food business a necessity.

Having introduced the basic supply chain activities in the restaurant business and a few crucial factors for their success and having touched upon innovation in the field, the following section will return to the field of local sourcing and discuss what special forms of supply chains exist in the sector.

2.3 Local food supply chains and business models

Thinking in terms of B2C and B2B operations, in case of the local food business these two categories would be represented by households acquiring their ingredients from markets or shops specialising in local food and by restaurants and other food businesses sourcing local ingredients respectively. In this section the supply chains and operation of both will be discussed. The reason looking at B2C solutions is necessary, because this sector seems to have developed more rapidly than the B2B segment. Being acquainted with the already working solutions is crucial as there might be some that could be applicable in the B2B segment.

Perhaps the most well known form of B2C local food platform are the farmers markets, where farmers come together in a common marketplace to sell their produce to customers, however, these markets are far from being the only way in which local produce reach end customers directly. Bauman et al. (2014) have created a classification of local food business models that provides excellent basis for comprehensively overviewing the local food business. Figure 3 is adapted from their research and displays all the components of the local food system. Their research mainly discusses the items in the upper half of the figure, as these solutions relate to the local food system and the B2C solutions can be found in the top left quadrant. Farmers markets that were mentioned before are characterised by higher sales value, but lower sales volumes. Roadside stands and community-supported agriculture are set in the same quadrant, implying that these business models are calibrated for a smaller, perhaps niche market therefore are not suitable for supplying large or consistent volumes of produce. In case of farmers markets,

supplying restaurants is mentioned in the figure; however further characteristics of restaurants relying on farmers markets are not specified, nor is the extent to which restaurants in question are relying only on farmers markets as their primary source of supply. Community supported agriculture (CSA) is more controlled as it works by delivering directly to households, possibly based on contractual agreements (Bauman et al., 2014).

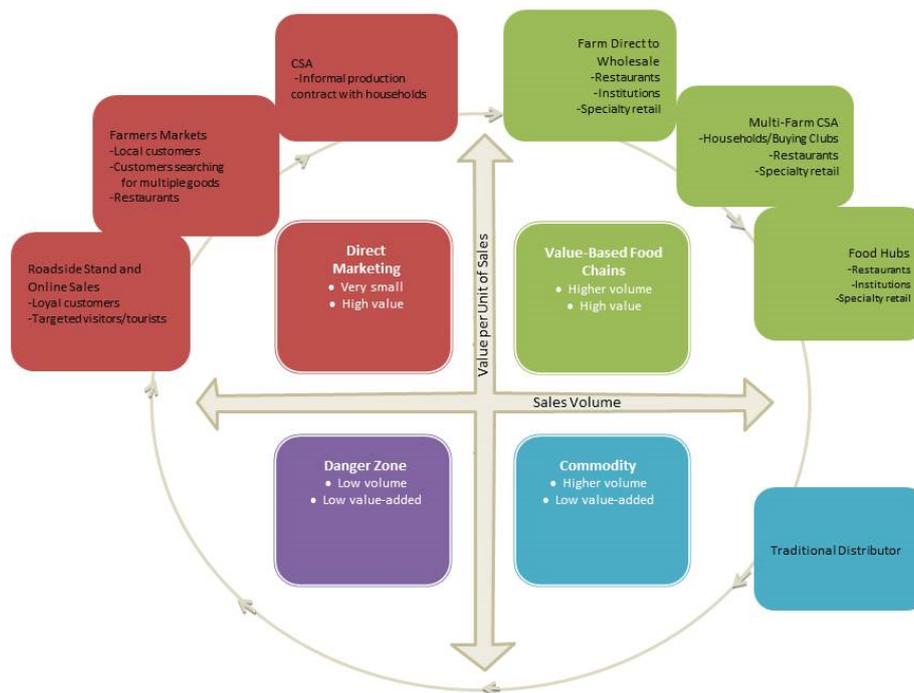


Figure 3
Classification of Local Food Supply Chains adapted from Bauman, A., Shideler, D., Thilmany, D., Taylor, M., & Angelo, B. (2014). *An Evolving Classification Scheme of Local Food Business Models. In Poster at the eXtension CLRFS 2014 Food Security Conference-Sept.*

The B2B solutions can be found in the upper right quadrant of Figure 3. They resemble the B2C solutions, only they are slightly adapted to be able to provide more regularity and larger quantities as these aspects are crucial for supplying businesses. Farm direct to wholesale for instance is a form of direct supply, which requires restaurants to be able to coordinate their various input sources, which might take up significant energy of a small or middle-sized individual restaurant. This solution bears however the advantage of building a close partnership with the suppliers and restaurants could possibly benefit from communicating their needs to

the supplier who in turn might be able to personalise their supply (Bauman et al., 2014).

Multi-Farm CSA (Figure 3) is a somewhat different model, one that is closer to a supply-based approach, as it grants more pricing and decision-making power to individual farmers. In this case, farmers are obliged to use a common market and it is not unusual for the customers to buy shares of the production upfront in order to secure produce from the farmers. This solution, however convenient for the farmers, might be perceived risky by the restaurants and definitely diminishes the flexibility of the businesses and the ease of trying out this form of sourcing method is poor (Bauman et al., 2014).

Food hubs (Figure 3) benefit producers as they act as an organisation representing them and marketing their produce. These organisations seek to solve the problem of reduced efficiencies of individual supplying (e.g. farm direct to wholesale), however, the risk of the producer hub acting as a conventional supplier arises. Food hubs have a larger capacity of advertising and marketing their members' products, which potentially leads to increased efficiency (Barham et al., 2012; Bauman et al., 2014; Woods et al., 2013). From a customer perspective, producer food hubs are a solution for inconsistent and insufficient supply, as there are possibly multiple farmers from whom the produce could be sourced (Barham et al., 2012). Restaurants' might also prefer producer food hubs, for the reason of being similar to deal with as a conventional supplier, thus requiring less effort when changing to this type of supply source (Bauman et al., 2014). A local food hub itself has been described as a "*A business or organization that actively manages the aggregation, distribution, and marketing of source-identified food products primarily from local and regional producers to strengthen their ability to satisfy wholesale, retail, and institutional demand.*" (Barham et al., 2012, p. 6).

Additional to the above mentioned supply chain solutions, there are some further morphologies done by other researchers. To introduce a further aspect, Hall and Page (2005, p. 248, as cited by Smith et al. 2008) identified five different supply chain categories: (1) Direct sales, whereby the consumer buys directly from the producer (2) The industrial food supply chain, in which the producer to wholesaler to retailer to consumer supply chain (3) A cooperative, whereby producers are

collaborating to sell to the consumers and possibly share marketing costs (4) Restaurant supply chain, whereby the consumer purchases meals from the restaurants that source from producers (5) Network of producers, in which similarly to a cooperatives, producers collaborate, but supply both markets and restaurants and create joint marketing and branding. In this categorisation (4) Restaurant supply chain is quite ambiguous, as the way restaurants source is not specified. It is then still open for discussion whether it is possible for restaurants to use supply chain solutions described by the other categories in order to better reach local produce.

In terms of being the preferable business model, local food supply chains have to compete with conventional, globalised supply chains that are well developed and have certain advantages such as speed and consistency that are a consequence of their integration as well as their sheer size. Local food supply chains on the other hand are typically small-scale and are not vertically integrated (Woods et al., 2013). It is clear that local supply chains work differently than the conventional ones and perhaps the traditional restaurants' business models are not applicable when working with local suppliers. Supporting this statement there are a number of examples from the restaurant industry. One of them is Jose Enrique, a Puerto Rican chef has adapted his restaurants' business model in order to be able to accommodate local ingredients. What makes the situation unique in Puerto Rico is the lack of well-developed local farmers due to the high dependence on imports from the United States. To be able to utilise the local terroir's full potential, Enrique decided to use locals as his primary suppliers and changed the conventional menus to 'whiteboard menus' that are written in accordance with the daily supply (Goldberg, 2013).

The adaptation to local food supply chains is clearly more difficult for restaurants and takes effort in reorganising the businesses in question. Despite some of their disadvantages, local food supply chains do have qualities that would make them the more desirable solution for restaurants and other food businesses. In the following section the benefits and obstacles of working with local food supply chains, will be evaluated in order to discover the factors that restaurateurs find challenging.

2.4 Restaurants' motivations and obstacles to work with local food

As mentioned before, food businesses could benefit from sourcing locally, given that they adapt their business model in order to successfully capture the opportunities that this segment offers. Research has already been done on businesses' motivations and barriers regarding the usage of local produce in the food industry. In the following section some of these aspects will be discussed in detail to show how local sourcing can affect the marketing and operations of food businesses.

The first aspect that makes local sourcing desirable to restaurants and other food businesses is that working with local or sustainable food can be used as successful differentiation strategy and can ultimately lead to improved financial results. It has been found that certain customers were willing to pay up to \$1 more for menu items that were promoted as local. With this method, the businesses are able to increase profits due to their promotion strategy; for this however, it is crucial that the usage of local ingredients is communicated to customers (Ortiz, 2010 as cited by Sharma et al., 2014). Research has been conducted featuring representatives of different restaurant categories and in this study the upscale restaurateur has been interested in sustainable practices in their restaurant solely because of the business opportunities it provided (Poulston & Yiu, 2011). Similarly, Sharma et al. (2009) found that restaurants of three different categories that promoted local ingredients have managed to find and serve a niche clientele by utilising these practices. Specific promotion methods mentioned in this research were recommendations by waiters and creating a "today's special" with local food based menu items (Ibid.).

A further attribute of local food that has a great influence on restaurants' purchasing decisions is the quality of local produce. It is logically arguable that local food has to travel less, thus is fresher than non-local produce. Research by Sharma et al. (2014) concentrates specifically on the purchase decision of restaurants regarding local produce and produced statistically significant connection between the decision to purchase (DP) and the quality of produce. They found that restaurants that are currently purchasing local produce found it of higher quality (Ibid.). Therefore it can be assumed that once restaurants have experience working with local suppliers perceive a heightened quality of local produce. Murphy & Smith (2009) researched chefs' attitudes toward local food and have found that they, who have the highest

knowledge working with food, seem promote the usage of local food in their restaurants.

Restaurants working with local produce need to address the question of seasonal supply. Assuming that a food business would source the majority of their ingredients from local suppliers, the variety of available produce will be much smaller than that of globalised suppliers. A successful transition to local sourcing therefore requires great agility from restaurants (e.g. creating seasonal menus, communicating sourcing decisions to customers). Research has indicated that this agility is more likely to be present in case of commercial food businesses as opposed to institutional ones as the latter would seek to minimise costs where possible (Strohbehn & Gregoire, 2003). Following the same logic it can be assumed that individual restaurants of smaller size are more likely to be able to cope with this increased need for flexibility as they would be likely to benefit less from the economies of scales offered by conventional suppliers.

Local produce from a delivery perspective has both positive and negative attributes based on both theory and experience. Sharma et al. (2009) showed in their research, restaurants that worked with local produce have not experienced any difference between the delivery time of local and nonlocal produce. Delivery times are a crucial factor for a restaurant and are likely to suffer when done by smaller scale producer who lack the necessary equipment and resources to compete with their large-scale non-local competitors.

Markham et al. (2013) examined numerous motivators and barriers of restaurants in local sourcing. Their research was based on personal, semi-structured interviews with owners and head chefs of thirteen restaurants in Saratoga Falls, New York. Their findings are mostly in line with the literature contained in this section. They have found product differentiation to be one of the most common motivators among the interviewees. 54% of the businesses derived their motivation to source locally from the possibility to fill a growing niche in the market. The core of product differentiation, however, varied from restaurant-to-restaurant, offering a number of different positioning aspects for the businesses. The most common differentiation aspect was found to be the superior quality and freshness of local produce, whilst others mentioned the possibility of providing a unique experience by using local

sourcing. 64% of the same thirteen restaurants were engaging in local sourcing in order to capture to the environmentally conscious segment, which in a sense relates to filling a niche market. Some of the restaurateurs mentioned, that members of this segment were willing to pay more for locally sourced products, thus creating a price premium for restaurants engaging in local sourcing. Among other (not strictly financial) motivations, 62% of the interviewed restaurants mentioned a personal (lifestyle) motivation to engage in local sourcing. In general, those who mentioned these personal motivations were keen on paying a premium to local farmers instead of commercial third parties that are present in conventional supply chains. Some mentioned, as their motivation, the desire to transform the prevalent food system. The results of the study are showcased in Figure 4 (Markham et al., 2013).

	Niche Market	Sustainability	Education	Lifestyle	Location
The Local				X	X
50 South	X	X	X	X	X
Mouzon House	X	X		X	
Comfort Kitchen	X	X	X	X	
One Caroline	X	X			
Coffee Traders		X		X	
Four Seasons	X	X	X	X	
Healthy Living	X	X	X	X	X
Chianti					
Boca					
Forno					
Pasta Penne					
Harvest & Hearth	X	X		X	X

Figure 4
Motivators for Restaurant use of Local Food adapted from Markram, L., Paino, J., & Greene, H. (2013). *Why Local: An Examination of Motivations and Barriers to Integrating Local Food in Saratoga Restaurants.*

2.5 Customers’ motivations and obstacles to purchase local food

In order to provide a complete overview of the factors food businesses have to consider when engaging in sustainable practices or working with local food, customers’ needs and motivations regarding local produce must be discussed. While some customers might be interested in supporting local farmers by occasionally dining in restaurants that are known to source locally, the dedication on the

restaurants' side is much larger as they will try to supply a demand that is not based on a necessity. As past research indicated, green practices in a restaurant might not play such an important role, from the customers' point of view, compared to the restaurants' core aspects e.g. food quality or atmosphere (Namkung & Jang, 2013). Restaurants and food businesses therefore must understand customers' motivations regarding local produce and combine this knowledge with the knowledge of everyday customer motivations in order to achieve a viable business model that keeps local sourcing in mind.

Research that sought to discover customers' motivations behind purchasing sustainable (organic) fruit and vegetable boxes on a regular basis assumed, that customers tend to be driven by two different aspects. One of these aspects is the 'hedonistic reason' that assumes that customers seek the superior value in the produce, such as freshness, organic low-scale farming etc. The other aspect is the 'altruistic reason' the one that is driven by customers' motivation to make environmentally friendly purchasing decisions. In case of local sourcing this aspect would include items such as low food mileage and support for local agriculture (Brown et al., 2009).

The same research has inspected the socio-demographic profile of the vegetable box customers both in France and the United Kingdom. Brown et al. (2009) establish that the typical customer was rather affluent and mostly above 30 years old in the UK and above 45 in France. The underlying reason for this socio-demographic profile was due to the fact that sustainable agriculture has a certain price premium. Brown et al. (2009) suggest that in order for sustainable agriculture to have serious impact it must be accessible to a wider population. Nonetheless, for food businesses seeking to target this segment, these studies give a helpful aid identifying their potential customers base albeit generalisations of these socio-demographic profiles must be done with caution, as the differences in customer base might vary drastically between countries or indeed between different types of food service businesses.

On the other hand one can find some barriers to purchase local produce, as a study on consumer behaviour done by the FSA (2003) suggests that even though the awareness of local food supply chains is high, the average customer is confused

about the products' labelling and underlying characteristics implying that businesses engaging in local sourcing should communicate their message and values clearly to customers. The FSA study highlights the distinct price difference of sustainable products, which is noticeable to all potential customers, but also acts as a barrier to lower socio-economic groups and even those who could afford the produce but are not convinced of its superiority.

The aspect of seasonality has been briefly touched upon in the previous section, however it has crucial implications from the customers' perspective as well. Research found the desire to eat out-of-season was a significant restricting factor in case of local food retail (Brown et al., 2009). Their finding is in accordance with Pearson & Bailey (2008) who state that the average customer still expects to find certain products all year around albeit their season would only last a short period of time. These barriers, however, derive mostly from the customers' mind-set and the dominance of globalised sourcing in both supermarkets and restaurants. A number of restaurants, mostly in the fine-dining segment, aim to reverse the conventions and source strictly seasonally. There are different methods to this, either the restaurant produces its own ingredients and works with fresh seasonal produce or conserve it for later use (Fäviken Magasinet, Sweden). Other examples show a close collaboration with farms supplying the restaurant with seasonal produce (Blue Hill, New York). In this high-end segment, the conventions are reversed and the supply based business model paired with the superior preparation of food and education of consumers what would otherwise qualify as a barrier to consumers is used as one of the main selling point of the restaurants.

2.6 Sustainable company value drivers

When assessing any business model and their underlying structures and strategies, one will find the main drivers that have the largest effect on the business' value creation. Identifying value drivers are a fundamental phase for business owners at both the inception of their businesses and in times of change. Value drivers will differ from industry-to-industry but significant differences can be found between different approaches or depending on company size. When talking of a paradigm-

change within an industry that seeks to incorporate the idea of sustainability in its foundations, it is critical to discuss how the main value drivers would change. Existing literature on the topic within the sustainable restaurant topic is scarce; nevertheless, examining research that targeted the general idea of sustainable value creation using cross-industry samples provides valuable results that may be applied to other fields.

Rauter et al. (2015) conducted a research based on 10 Austrian companies (two of which were from the food industry) with an aim to recognise the main aspects driving sustainable development. They classified the identified value drivers into three categories: (1) economic aspects of sustainability (2) environmental dimensions (e.g. amount of resources) and (3) personal values and beliefs. The research in question took an exploratory approach and relied on semi-structured interviews that helped to gain a deeper insight to the companies' motivations and tools in pursuing sustainable operation. It is interesting to note that seven out of the ten companies claimed that their main focus was not profit maximisation. This fact allows us to suspect that value drivers within sustainable businesses vary greatly between sustainable businesses and their conventional counterparts. *"Sustainability means that a company needs to be economically successful on the long run (interviews 1, 4, 8), but with a business model which allows the following generations to enjoy the same standards we have today (interview 8)"* (Ibid, p.16). Their envisioned framework for the operational side of value drivers relies on four pillars: product, customer interface, infrastructure management and financial aspects. These areas are then further divided into business model building blocks that include value proposition, target customer, distribution channel, relationship [with customers], value configuration, core competency, partner network, revenue model and cost structure. These building blocks were derived from interview responses and they point out the main areas companies can work on when focusing on sustainable operations. Half of the respondents' businesses were developed with sustainability in mind while the other half had to adapt theirs. Unfortunately, there is no mention of which approach requires more effort. The main value drivers identified by their research were as follows: *Leadership* was proven to have a significant influence as it is crucial element in the development phase of any business model and an environmentally conscious leadership can make a significant mark in the company's

fundamentals. *Organisational culture* was another key driver as employees' collaboration is regarded crucial for the creation of a sustainable business model. The *concept of sustainability* was also identified as a driver. *Legal regulations* also act as a key driver for developing sustainable business models, however, this aspect might play different roles in larger manufacturing firms than in restaurants. At the same time, contrary to expectations, *the need to maintain competitive advantage* and *competitive strengths* were not regarded as key drivers (Ibid).

Foerstl et al. (2015) conducted research on supplier sustainability in a general supply chain perspective mostly with manufacturing examples. Nonetheless, some outcomes are highly applicable to the food industry. Their approach was to identify drivers in two key categories: product and process based contextual drivers. Among product based drivers the *degree of component visibility*, as well as, *supplier component visibility* were identified as key drivers. These two aspects are notably relevant to the restaurant business, as restaurateurs and customers both tend to place an emphasis on the ingredients. Regarding process based drivers; *stakeholder pressure* was proven to have a significant effect on firms' willingness to integrate of procurement marketing and engage in other temporary task-based resource commitments that were considered sustainable. In contrast, they found that *customer pressure* motivated firms to engage in permanent sustainable resource commitments (Ibid).

Other research concentrated on managerial understanding of corporate social performance (Epstein & Roy, 2001). In their research, they assume certain actions that are considered to contribute to the sustainable operation of firms. Their framework assumes that capturing *stakeholder reactions* from *sustainability performance* will lead to *long-term corporate financial performance* (for the framework and drivers, refer to figure 5).



Figure 5
Drivers of sustainability and financial performance adapted from Epstein, M. J., & Roy, M. J. (2001). Sustainability in action: Identifying and measuring the key performance drivers. Long range planning, 34(5), 585-604. (P. 588)

From the food business perspective, the drivers identified by Epstein & Roy (2001) are less applicable, however their research is relevant and should be mentioned due to the framework they created to model how businesses can capture value from sustainability. Among further managerial implications they mention the importance of quantifying sustainable value drivers' impacts on profits. In figure 6 they suggest measures to quantify the drivers mentioned previously as well as the payoff for those drivers (Ibid).

Again, the implications to the restaurant industry are limited, however, what can be taken away is the mind-set that seeks to quantify and evaluate the impact of certain sustainability contrary to many other approaches that fail to specify how sustainability might contribute to business success in monetary terms.

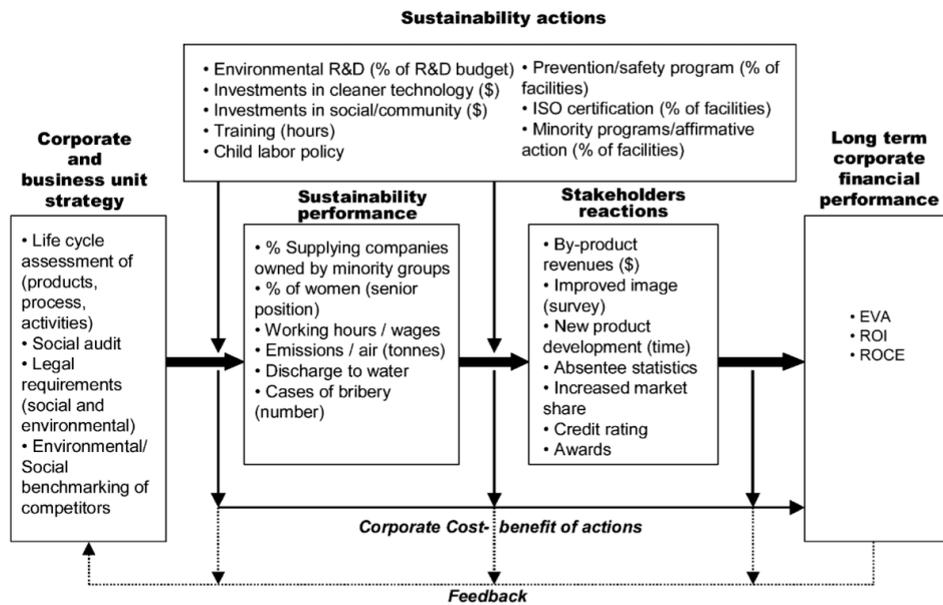


Figure 6
Metrics of sustainability and financial drivers adapted from Epstein, M. J., & Roy, M. J. (2001). Sustainability in action: Identifying and measuring the key performance drivers. Long range planning, 34(5), 585-604. (P. 601)

3 Empirical research

The second part of this paper will consist of describing the empirical primary research done in order to add further aspects to the existing literature. As the research aims to be exploratory in the field of sustainable restaurant sourcing, the primary research concentrates on acquiring opinions and experiences from various fields of the industry and not to statistically prove or disprove any theories.

The empirical research section of this paper comprises two main elements, one in-depth interview and three questionnaires with open-ended questions. As much of the discussion is about financial performance and business success, in order to receive reliable answers the interviewees were assured that the names of the businesses would not be mentioned in this paper.

3.1 Interview results

The semi-structured interview took place in February 2016 in Budapest with one of the business owners of a sustainable food intermediary that was created with the aim of rural development in mind (refer to Appendix 1). Research prior to the interview suggested the business operates the following way: they source ingredients from organic, preferably small-scale farmers (no certifications required, personally assessed) from throughout Hungary and process this food in their internal kitchen (without a direct face such as a restaurant) and distribute certain products to cafés that do not have a kitchen, but would like to provide good quality snacks and sandwiches. Their other line of business was known to be event catering. For this, sourcing and production were the same and additionally they were known to place an emphasis on using sustainable packaging and minimising food wastage.

Questions were developed based on these prior assumptions, with the aim to learn as much about the company's operations structure as possible. Thus the questions guided the interview, however there was space for additional comments and as the business changed course shortly before the interview was conducted, the conversation proceeded to explore this aspect as well.

The main difference between the initial research about the company and the outcome of the interview was that the company shifted its focus, they ceased to supply cafés and started concentrating on catering (as this line of business has the highest margins) and launched a new line: lunch delivery to individual customers. The philosophy, however, remained the same: local suppliers (in this case local means domestic) who utilise sustainable farming methods and are preferably small-scale. For the lunch delivery service, they place an emphasis on the usage of biodegradable packaging and they make their deliveries using bicycle couriers.

The discussion regarding their sourcing and delivery activities revealed that the business does not work with any third party delivery agencies, their sourcing methods are quite mixed depending on the various producers, meaning some deliver themselves and the company manages the rest. The business has one employee who is responsible for both the in and the out-bound delivery. Relating to their sourcing and delivery the interviewee also stressed the importance of planning

with suppliers. The difference between working with conventional and small-scale suppliers seems that with the latter businesses have to plan more in advance (sometimes up to 6 months in advance). Setting an appropriate planning period with the producers in question is crucial for the small-scale farmers who dedicate a significant proportion of their produce to the business in question (sometimes even personalising the produce to fit their needs) and they must have reassurance that the produce will be purchased. The same holds from the business' perspective; when expecting a certain produce (just as after placing an order) they must be sure they can depend on the agreed quality and quantity of produce.

Aiming to understand the marketing, positioning and targeting efforts behind the company's business model some questions were aimed at these aspects. Regarding competition, the interviewee evaluated their situation, as being without competition arguing the fact that competition within their profile (higher quality, 20% higher price, sustainable) does not exist in Hungary.

Their positioning strategy was articulated more in the catering-side of the business, in which they aim to attract large, international companies, preferably with a sustainable corporate focus and with a separate department focusing on events/catering. This target market suggests wealthier, sustainably conscious customers. As for the acquisition of new clients, they rely on word of mouth advertising instead of persistent direct marketing. They believe by providing exceptional service within the core competencies, they will attract further clients. Unfortunately, marketing and segmentation for their newly starting lunch-delivery service was not elaborated during the interview.

The questions of price premiums was discussed and seemed to be present at both the sourcing and on the sales side. A stable price premium seems to be present among sustainable and/or organic produce (or indeed it could be perceived that this would be the natural price for all produce which is absent among large-scale suppliers due to economies of scale and their increased buying power) the business sources the produce at a 20% price premium compared to conventional suppliers, however their end-prices also bear a 20% price premium compared to their conventional counterparts. The interviewee was on the opinion that this price premium must be there as there is no way to get around it in the context of small-

scale, sustainable farming. Regarding the sales prices, however, he mentioned that the business is currently testing the elasticity of the demand, meaning that they are curious how much their clients are willing to pay for their products as well as how low could they potentially go with their prices, without hurting their revenue model.

Discussing future directions that the business might take the topic of business growth was included. The company is expecting growth in the near future, an expectation that is partly tied to the introduction of their new B2C business-line (lunch delivery) and partly to the on-going success of green catering.

Discussing profitability and financial viability was never expected to be a straightforward task during the interview; therefore the results received should be handled with caution. According to the interviewee, the business did not manage to break even during their one year of operations; however, they expected to do so shortly.

A short report in the Hungarian edition of Forbes Magazine showed that the company made approximately a €30.000 loss during their first year of operation. The article also mentions that the original investment to start the company (which was the offspring of a university rural-development project) amounted to approximately €100.000 and needed an additional €50.000 in order to continue operating.

3.2 Questionnaire results

The second part of the empirical research done for this paper comprises three questionnaires (refer to appendices 2-4) that were completed by the representatives of three food businesses: two delis and a hotel restaurant. In the following text the three will be denoted as Deli 1 (appendix 2), Deli 2 (appendix 3) and Hotel Restaurant (appendix 4). The main aim of these questionnaires was to gain an insight into a few businesses' mind-set and thinking behind their sustainable business goals. The discussed topics were drawn from the most common themes of existing literature on the subject. The businesses were picked based on their apparent usage of local ingredients and sustainable profile. The questionnaires were handed to the respondents in person after agreeing to complete them and were collected the next

day and were discussed briefly with each respondent in order to clarify the responses as well as some questions.

Deli 1 (refer to appendix 2) was situated in the very centre of Norwich, UK in a rather busy pedestrian street. The deli seemed to be busy as well, with customers staying for snacks or a tea as well as with customers purchasing for take-out. Regarding the size of the business; it could be described as rather small, with two employees working in the busiest times (one preparing the dishes and the other serving). The questionnaire was completed by the business owner.

Deli 2 (refer to appendix 3) was a Slow-Food certified establishment situated in Norwich, UK, however, in a less concentrated area, on the brink of the touristy city centre close to a number of offices and schools. Customers seemed to be arriving from these establishments at lunchtime and locals at teatime. Deli 2 was somewhat larger with up to 5 staff members per shift (servers and kitchen). Additional to the lunch and beverages, this business offered certain non-fresh delicacies (e.g. canned goods, olive-oil and wine) that were clearly not from the region. The owner of the business completed the questionnaire.

The Hotel Restaurant in Barcelona (refer to appendix 4) was situated close to the city centre of Barcelona and offered typical Mediterranean meals and promoted their use of market ingredients. The restaurant targeted both locals and hotel-guests. The questionnaire was completed by the executive chef.

The first aspect that the questionnaire concentrated on was to what degree do these businesses depend on local produce. Deli 1 produced the highest value, saying 95% of their products originated from the region. The Hotel Restaurant in contrast worked with 35% local produce and Deli 2 with a modest 25%. To refer back to the literature, differences in the answers might arise due to the various businesses definition of 'local'. Only the Hotel Restaurant specified that 'local' for them meant Catalan.

The second question enquired about the methods of inbound logistics providing three choices: (1) *The producers deliver* (2) *We collect the produce* (3) *Third party controls delivery*. The responses showed that none of the options prevailed, as Deli 2

and the Hotel Restaurant marked all three options and Deli 1 marked options (1) and (2). The chef of the Hotel Restaurant explained that all three options are used, however, the most common method of sourcing is third party delivery (due to the more organised manner of a hotel restaurant as opposed to the independent delis).

The third question sought to explore the perceived advantages and disadvantages of working with local suppliers asking them to name a few pros and cons. Deli 1 mentioned lower delivery costs (due to the geographical proximity) as a definite advantage, however also highlighted the fact that due to the lower quantities of local produce, the end-price is higher. Deli 2 mentioned the possible selling points of local produce, such as the appeal for tourists to consume something from the region and the attractiveness of local menu items. Traceability and lowered food miles were also considered to be advantageous as was seasonality, arguing that receiving in-season produce, the quality will be better. Deli 2 associated prolonged waiting-times with the negative side of sourcing locally, which can be caused by the fact that small-scale local producers tend to produce smaller batches due to their capacity and their desire to minimise wastage. According to the Hotel Restaurant chef, the main advantage of working with local suppliers is the increased direct contact and control with one's suppliers that leads to higher quality products as well as personalised solutions to meet the restaurant's needs. On the flip side, seasonality and dependence on the local weather were mentioned, as was the higher cost of local produce. The need for the kitchen to be flexible in times of fluctuating supply was also mentioned.

The fourth question (*What are your main reasons for sourcing locally?*) aimed to understand why, despite the negative aspects, these businesses chose to work with local produce. Deli 1 mentioned superior quality, traceability and the ability to support local trade as their main reasons. Deli 2 only mentioned reduced food mileage as the main reason for sourcing from the region. The Hotel Restaurant also indicated superior quality as the main driver.

Regarding the price difference between local and non-local produce, all three businesses indicated that local costs more. Deli 2 did not specify by how much; Deli 1 indicated an approximate 30% price premium; and the Hotel Restaurant estimated a 10% price premium on local produce and reasoned that from a quality to price ratio

perspective the price premiums of local produce are justified by the proportionately higher quality.

Following up on the previous question, the respondents were asked if they charge more for dishes prepared using local produce compared to meals prepared the conventional way. Deli 1 stated that they charge customers to same premium as what they pay the producers. Deli 2 considered it crucial to adapt to RRP (recommended retail prices) as in their experience customers are price sensitive and therefore the business must match its competitors' prices. A further aspect of charging lower prices, in their opinion, was the reduction of wastage and foregone revenue. The chef from the Hotel Restaurant also articulated the need to match the inbound prices with their retail prices, however as a personal opinion, he added that retail prices must be higher as the sustainable method of production does, by definition, has higher costs.

Question seven (*Is your business profitable?*) aimed to uncover the financial viability of the businesses structure. Even though we may not draw direct conclusions from the results of these questionnaires, it is interesting to control for business owners' points of focus and their financial success. The owner of Deli 1 stated that the business is breaking even at the moment. Deli 2 simply stated that the business is indeed profitable, as did the chef from the Hotel Restaurant. The latter specified that that the biggest issue within the business is keeping food cost below 30%. High payroll expenses also diminish profitability, due to the need of highly skilled kitchen staff whose knowledge is crucial for delivering potentially higher quality that derives from the local ingredients.

4 Discussion and analysis

In the discussion and analysis section of this paper the most important drivers of sustainable business models will be enumerated and critically assessed, contrasting the conclusions of the literature review and the primary research.

The two main categories of value drivers are operational value drivers and customer value drivers, embodying the two pillars of sustainable company value creation.

4.1 Operational value drivers

Operational value drivers are decisive factors that a business has to concentrate on in order to achieve efficient operating conditions that in turn will lead to financial stability and long-term business success. In these following sections, the three value drivers that are most relevant to sustainable businesses will be discussed.

4.1.1 Operational agility

Operational agility refers to the ability of a business to remain flexible and reactive to change. This, on the one hand, can relate to financial aspects of the business, meaning that investments in a relatively innovative business model must be made with caution, as some experimentation is necessary to optimise the way restaurants are set up. There is not one single solution for all sustainable restaurant business models as many of the success factors can change between countries, types and sizes of the businesses. Preparing financially for an initial trial and error phase of business development might be crucial in order to eliminate the instant failure in the early stages often experienced by restaurateurs.

Operational agility on the other hand can refer to the need to transform conventional food businesses in order to accommodate the inherent fluctuating and sometimes-unstable nature of local, small-scale food supply. There are a number of ways restaurants can do this, including white-board daily menus and special seasonal offers. It is essential that restaurateurs understand the major differences between conventional and local supply and accept the fact that the traditional, permanent menus are not suited for local, seasonal supply.

Operational agility, apart from tailoring the offerings of the restaurant to fit seasonable and fluctuating supply, must be supported by a competent staff and educated guests. Chefs must be fully competent, creative and devoted to the notion

of local sourcing in order to be able to react to changes in the supply and provide consistent quality with rapidly changing ingredients. The above-mentioned aspects must be communicated to the customers in order to capture customer value.

4.1.2 Focus on core activities

A recurring idea in the literature was the necessity for restaurants to focus on their core competencies and primary mission: value creation. Namkung & Jang (2013) regarded the question from the customers' perspective, saying that restaurant guests, no matter how environmentally conscious, will find basic attributes of a restaurant (e.g. food quality, ambiance) more important than their underlying mission. Research targeting restaurateurs, pointed out, that professionals found financial viability a prerequisite to the adaptation of successful green practices (Poulston & Yiu, 2011).

Optimising the core activities of restaurants therefore should be assessed at the time of business model creation and should be well aligned with the sourcing decisions of the company as well as other green practices. In a practical example it would mean that suppliers should be analysed from two perspectives. Firstly, do they reach the sustainability criteria of the restaurant; secondly, inspecting the operational aspects (do they offer any guarantees, what are their lead times, what is the method of delivery). This latter aspect of supplier analysis can also lead to the decision of a food-hub type of supplier instead of individual farmers in order to relieve small restaurants from the burden of having to employ additional staff to handle sourcing.

Restaurants' decisions made using this approach will undoubtedly depend on their capacity, devotion to sustainability and their budgets, however, making decisions incorporating both the aspects of environmental sustainability and financial sustainability would reduce the risk of making decisions biased by personal opinions.

4.1.3 Choice of suppliers

One of the main positive externalities (in some cases motivation) of local food supply is the support of locals through agriculture. This at first glance is an altruistic motivation from the business' perspective, however restaurateurs can reap the benefits of such actions by establishing close, highly collaborative relationships with their suppliers that would not be possible when working with conventional large-scale suppliers.

When restaurants and other food businesses seek local producers to partner with, there are a number of perspectives that might be interesting to look at. Ideally, businesses will look for producers that are looking for a close partner (or even an exclusive partner) to supply, in order to develop a lasting partnership considering the relative difficulty of changing local suppliers as opposed to conventional suppliers. Lasting supplier relations also propose a number of further benefits, as trust is created over time it is likely that the restaurants will enjoy a more personalised service.

As the executive chef from the Hotel Restaurant (appendix 4) mentioned, certain producers offer speciality products from the region that can improve the desirability of the menu items, therefore certain producers could be affiliated due to their exceptional products.

Restaurants should also take into account a number of more pragmatic aspects when looking for local suppliers. As mentioned in the interview, (appendix 1) geographical proximity can be a key factor when deciding between similar producers (especially if delivery is done by the restaurants). Indeed, restaurants must assess their capacity to the different delivery methods; larger restaurants with more employees might be able to collect some of the produce themselves, smaller businesses on the other hand might have to opt for producers that deliver themselves or employ third party delivery (this might increase costs). Restaurateurs can also be faced with the decision regarding the degree of involvement with their suppliers. Some producers will be well established and aware of restaurants' needs and will be able to pro-actively manage their supplies, however, some suppliers (especially in lagging regions) will require a certain level of education and assistance

from restaurants. Clearly not all restaurants will be able (or willing) to work with suppliers that need assistance.

Restaurants also have the option of choosing between individual suppliers and food hubs or other types of collective producer systems. This question suggests a trade-off between the differentiating factor and the potential lower prices of individual producers, and the ease of using food hubs.

4.2 Customer value drivers

If creating operational value was regarded as one of the pillars of successful businesses, the other pillar shall be the creation of customer value. Capturing customer value, in the sustainable restaurant context, means restaurants' ability to successfully communicate their philosophy to their customers and capture customer value through the superior quality, premium prices etc. In this paper three of the key customer value drivers will be discussed.

4.2.1 Price premiums

Opinions throughout the literature and empirical research have been consistent in saying that local produce comes at a premium price, compared to produce from conventional, global suppliers. This is partly due to the fact that smaller sized producers do not enjoy the economies of scale their large counterparts do; on the other hand some producers are aware of their desirability among some restaurateurs due to the superior product quality they offer thus knowingly placing a higher price on their products.

As increased prices on the supply-side seem to be consistent, it is up to restaurateurs to make up for this on the retail side, so their margins are maintained or even improved. There has also been a general accordance in the questionnaire and interview responses in applying the same premium to customers that the restaurant has to spend on sourcing local produce. This way the restaurant in question would not earn a net premium by working with local produce, rather they

maintain their margins and at the same time seek to convince customers that the premium price for their food is due to its superior quality. Perhaps there are certain ways in which restaurants would be able to increase their profits solely by working with local suppliers, however this needs supporting actions that will be discussed in the following sections.

4.2.2 Positioning

In any case, restaurants, just as any other businesses, must position themselves in the market in order to gain a distinct place among their competitors. When restaurants working with local producers have to make this decision, it is crucial to bear in mind the higher costs local produce will inherently have. Literature focusing on the socio-demographics of sustainable food customers identified the typical customer as rather affluent and above 30-45 years of age (Brown et al., 2009). Based on these assumptions it seems more appropriate for food businesses to occupy the higher-end of the scale in terms of prices and positioning. If restaurants manage to position themselves in the upper-scale or even fine-dining segment, they could avoid being affected by the higher price paid to their producers.

The up-scale and especially the fine-dining segment, however, bear other cost factors that drive profitability down, such as higher payroll related costs, rent in a prominent location etc. Should restaurants decide to position themselves as a more affordable restaurant, they must pay special attention on the close partnership with their suppliers, as they will have to seek out the best prices they obtain in order not to suffer from the difference between the high-cost and their relatively low-prices. A further solution outside the up-scale segment is for business to operate in a lower segment, however ask higher prices compared to their direct competitors. This might be the most challenging to achieve, as customers will have to be thoroughly educated and convinced that the higher prices bring proportionate benefits in quality, positive externalities etc.

4.2.3 Promotion methods

As mentioned before, in an environment where the sourcing costs for the restaurants are consistently higher, it is crucial that the customers are educated and convinced that the premium they have to pay is justified. Restaurateurs and chefs have thorough knowledge about the local produce they use and its many added benefits, however these might not be evident for guests. Communicating these benefits to the customers can be done in a number of ways and will ultimately lead to their heightened appreciation for the quality and the restaurant's efforts to support local producers.

As mentioned by Deli 2 in the empirical research part of this paper, menu items are improved when local items appear. Furthermore, as literature suggest, one of the most important aspects of sustainable sourcing is traceability (Raynolds, 2009) and interviewees claimed that local produce has the attribute of being easily traceable. In order to harness these benefits of local produce restaurateurs must pay special attention to mention these pieces of information on the menus. Additionally, as Sharma et al. (2009) mentioned, successful promotion methods include staff recommendations, meaning that the servers have additional knowledge about the menu items and promote them or featuring 'today's specials'.

Restaurateurs must employ a combination of these methods or even look for additional ones in order not to lose the benefits that local produce offer. It is one thing that staff are aware of the superiority and benefits of local produce, however, if this knowledge is not shared with the customers, restaurants run the risk of customers not noticing these crucial details and therefore only perceiving the higher prices.

5 Conclusion

5.1 Implications and recommendations

To conclude the findings of this paper, one must take into consideration the complexity of the activities in question. Looking for the factors in restaurant business

success utilising local sourcing as a preferred sourcing method means looking at alternative ways of running a restaurant as opposed to the conventional, global suppliers.

The key findings in terms of the identified value drivers can be broken down into two categories, the ones that seek to maximise operational efficiency and the ones that aim to capture customer value.

While having the ability to reach swiftly to changes is favourable in case of any business, achieving operational agility is crucial for restaurants that wish to work with local suppliers. As discussed, restaurateurs must change their mind-set in order to create an environment that can balance the inherent issues of small-scale suppliers, such as inconsistent quantities and seasonal produce. It is up to the restaurant to be able to stay reactive to these aspects or even create an advantage by for example promoting daily menus that are highly seasonal.

In order for restaurants to continuously create value, they must keep a focus on their core activities at the same time as they engage in sustainable practises. Research has found that while the social or environmental mission of a restaurant might appeal to some customers, the majority of customers will still make purchase decisions based on traditional criteria such as ambiance or quality of the food. Balancing the two has to be a priority for every successful restaurateur.

When opting for local suppliers instead of conventional ones, the former will have to be properly analysed in each individual case to ensure that the partnership is beneficial from operational aspects, such as fitting delivery methods and sufficient capacity of the suppliers in question. On the other hand suppliers must be true to the restaurants' proposed values such as superior quality or the organic nature of the produce used.

An additional aspect of the operational value drivers to the ones mentioned above, is finding the right ratio of local produce used in certain businesses. While there are regions where, due to the climate and the development of local farmers, restaurateurs can easily source all of their produce from the region, restaurants in less favourable locations might struggle (both financially and logistically) to do so.

There is, therefore no one correct ratio, but rather all restaurants have to assess their position and indeed positioning in the market and make a decision on what percentage of local produce is optimal for their operation.

On the customer value creation side, commanding matching or even higher price premiums than those of local produce is crucial for the businesses. One way of achieving this is by positioning the restaurant in a way that price premiums are justified. This might mean operating in an upper-scale segment or developing an image and reputation by e.g. the quality of food, that customers will be willing to pay a premium price for. One must be wary though, that the latter is the easiest to envision, but the most complicated to achieve.

The need to communicate all of the benefits of working with local produce to customers was also identified as a key factor in capturing customer value. There are number of promotion methods for doing this, however the number is likely to increase with the appearance of more and more creative restaurateurs in business. The methods found in the literature and during the interviews include the promotion of local ingredients in menu items and staff recommendations combined with education of the guests.

By no means are the findings of this study universally applicable to all restaurants that wish to work with local suppliers, however, they add to the literature by exploring restaurateurs' experiences in the field and provide a guideline to help future research construct a more comprehensible framework underlying sustainable sourcing practices in the restaurant industry.

5.2 Limitations

There are, however, a number of limitations to this study. Firstly, due to its exploratory nature, it sought to discover as many existing phenomena in the field of sustainable restaurant sourcing as possible and therefore steers away from testing any of these phenomena in great detail.

The case is very much similar in case of the primary research part of this paper; the aim was to find the most possible aspects of sustainable restaurant management. The interviewee/respondents were too few to reach statistically significant results in assessing the topics discussed albeit this was never the goal of the research. Again, due to the exploratory vision of the paper, the interviewees operated or worked in their businesses in different parts of Europe, providing a larger scope through which the issues could be regarded, however, this method did not lead to statistically significant conclusions.

5.3 Directions for future research

The topic covered in this paper is very much beginning to gain more and more attention both among entrepreneurs and in academia. With the number of restaurants and other food businesses based on sustainability and local produce is growing, the need for more academic research on the topic is increasing as well.

Firstly, future exploratory research that would identify more value drivers and crucial aspects food businesses (either start-ups or existing companies wishing to transform) should create cues businesses should follow during the business-planning period. Identification of further drivers could be concentrated on particular cities or countries or should even be globally diversified, giving guidelines for local entrepreneurs and the latter aiming to understand the significant differences and patterns between various locations.

Secondly, controlling for these value drivers and crucial aspects in an empirical manner could benefit academia as well as restaurateurs by putting comparable numbers on the key areas of sourcing locally.

Furthermore, the number of research focusing on the evaluation of case studies within the sector, the likes of which have been used in this paper, should continue to grow in order to provide feedback to actual trials and errors from the industry as well as to help further construct the framework of the successful business activities linked to local and sustainable sourcing.

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Appendices

Appendix 1: Interview transcript

- Can you briefly introduce the business activities? How many employees do you have?

In our current form, we started out a year ago [2015]. We have about 12-15 employees half of them work in the kitchen, half in the office. Apart from them we have a refrigerated lorry and work with bike couriers [for delivering lunch boxes, their “the green lunch” product]. The kitchen starts working around midnight to be ready with the next day’s products.

- What do the daily sourcing processes look like for the business? What is the most crucial factor for your business? Are they any more complicated than working with a conventional supplier?

Our sourcing activities are quite mixed. Some producers deliver to us and sometimes we collect the produce ourselves. We do not work with any fixed delivery agency or anything of the sort. We have an employee who does the transportation whether it is sourcing or delivering.

Logistics and planning are very important for us, as we have to coordinate the purchasing different produce in different intervals, from more sources [e.g. dairy products, twice a week; smoked goods, every week etc.] with the personnel I mentioned before.

I would say producers are different to work with compared to conventional suppliers. For example, we have to plan with them ahead, sometimes half a year. We have to tell them what we need and what we want them to produce.

- What do your daily delivery activities look like?

We used to make produce [such as sandwiches or wraps] for cafés or bars that they sold as an additional menu item [they were mostly concentrated on drinks and other core products], however this we don’t do anymore. The same goes for restaurants,

we work with them less and less. For them, we are 20% more expensive than suppliers that sell worse quality. We sell smaller quantities and have a higher price.

Our new focus is on catering [events] and the “green lunch” [lunch boxes in sustainable packaging, delivered to offices, homes etc.].

- Who are your competitors?

We don't really have competition, as no other company seems to be doing what we do [In Hungary]. If there are price sensitive buyers, they won't buy from us anyway, they will look for cheaper [and not sustainable] alternatives. Customers that want our quality and are interested in the sustainability aspect will pay the extra 20%.

- Who are your target customers? How do you get new ones?

We work mostly [catering] with multinational companies, such as Google or Prezi. These companies tend to have their own department responsible for organising catering on their events, so they are interested in quality and sustainability.

We target environmentally conscious customers who are able to pay for our goods and services, so the wealthier segment.

In getting new customers, word of mouth plays an important role. We do not do any aggressive direct marketing.

- Do you expect business growth in the coming period?

Yes, definitely. In the next year we plan to develop our B2C presence. We plan to open a shop, where people can directly buy our products and perhaps grab a coffee, at the moment our products are only available at our events and through our website.

- Are your goods and services more expensive compared to a conventional supplier?

Yes, the extra 20% on the final price is a must, in order to stay financially sustainable. Usually the cost of goods sold would be 10%, however for us it is 30% as there are few producers who meet our criteria, and they have to be compensated for their services.

- *Is your business model profitable?*

After a year of operation we expect to break even. We have to be susceptible to new trends as well as sources of income. We have to be very effective on tenders in order to secure enough businesses [catering].

- *What is your pricing strategy? Are there certain activities that are more profitable?*

We don't really have a general pricing strategy, we are currently testing the limits of our prices. As for the more profitable activities: catering is definitely the most profitable.

Appendix 2: Completed Questionnaire: Deli 1

1. Approximately what percentage of your products are sourced locally?

Approximately 95%. I think.

2. When receiving ingredients from local farmers/producers, what are the methods of delivery used? (Multiple choice)

- The producers deliver

- We collect the produce

- Third party controls delivery

- Other:

3. What are the pros and cons of working with local suppliers?

The pros I'd say, as a small business, it's very important to support local trade and use local produce. The produce is fresh and hasn't cost a lot of money to transport or preserve it. The cons are that because local produce and ingredients are often produced in small batches they tend to cost more money.

4. What are your main reasons for sourcing locally?

Good quality ingredients that can easily be traced back to the producer. And to support local trade.

5. *Who are your target customers?*

Don't really have a target customer.

6. *Do local suppliers cost more than regular suppliers? If so, by how much (in percentage)?*

I'm not sure percentage but at a guess probably 30% more expensive.

7. *Is your business profitable?*

Breaking even.

8. *What is your pricing policy? Do you consider charging more for local produce?*

The mark-up is the same percentage as all products, so that does mean that local produce tends to cost more.

Appendix 3: Completed Questionnaire: Deli 2

1. *Approximately what percentage of your products are sourced locally?*

25%

2. *When receiving ingredients from local farmers/producers, what are the methods of delivery used? (Multiple choice)*

- The producers deliver

- We collect the produce

- Third party controls delivery

- Other:

3. *What are the pros and cons of working with local suppliers?*

- Often a wait for deliveries as items are produced to order to avoid wastage. (con)
- Support local economy, tourists and visitors like to take back a souvenir/gift from the area they have visited. (pro)
- Menu is improved when local items appear in dishes, lower food miles. (pro)
- People like to know where their food has come from, so local is better. (pro)
- Local produce tastes better and is only often only sold when in season. (pro)

4. What are your main reasons for sourcing locally?

Reduced food miles.

5. Who are your target customers?

Everybody! Locals, visitors.

6. Do local suppliers cost more than regular suppliers? If so, by how much (in percentage)?

Some products cost more to produce that are worth paying for.

7. Is your business profitable?

Yes!

8. What is your pricing policy? Do you consider charging more for local produce?

We price fairly. We go for an RRP [Recommended Retail Price] as it makes no sense to sell for a lot more than another shop selling exactly the same item. People will shop around for the best price (we hate waste and would rather sell it).

Appendix 4: Completed Questionnaire: Hotel Restaurant

1. Approximately what percentage of your products are sourced locally?

About 35% Catalan products

2. *When receiving ingredients from local farmers/producers (please circle one or more):*

- The producers deliver

- We collect the produce

- Third party coordinates delivery

All three options, but the normal and most used way is coordinated delivery from providers (third party).

3. *What are pros and cons of working with local suppliers?*

Pros: Quality, taste and variety of the products. Because they come directly from the farm to the kitchen. And it is very important to have direct contact with the farmers. That gives an extra value to the products. You can control better (at the farm) the quality of the products. Another point is you can communicate with the producers to search new solutions.

Cons: The products especially the vegetables are dependent on the local weather and seasons. Usually, the products are expensive, when they are local (it is not logical). Kitchens have to be flexible, because the amount of products can change.

4. *What are your main reasons for sourcing locally?*

The main reason is to buy the best products to cook for the customers in the restaurant.

It means to work in the kitchen with fresh and flavourful food. Sometimes it is traditional, but sometimes the farmers have planted some "new" vegetables, like antic tomato seeds and the products have a special value because only this farmer has it. Every region has its own and traditional products.

5. *Who are your target customers?*

Everybody who is looking for good food for a rational price, but it is especially important to educate and inform the customers of the important work of the

farmers and to surprise the costumers with “new dishes” made of ingredients growing close to the restaurant and in the region.

6. Do local suppliers cost more than regular suppliers? If so, by how much (in percentage)?

Yes, approximately a 10% sometimes more. But in the quality/price ratio usually they are same.

7. Is your business profitable?

Yes, but normally it is difficult to get under a 30% of food cost. And the business needs professional cooks to work with theses products and respect them. So the costs are higher.

8. What is your pricing policy? Do you consider charging more for local produce?

Yes, but it is important to understand that this has to change. If the produce are sustainably produced, the prices also have to be sustainable.