Burgerville – Fresh out of Local and Sustainable

By James Sterns and Jeff Harvey¹
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Abstract

Entering its 55th year in business, Burgerville always has been a company anchored in a core set of values and business practices. Central to these has been a commitment to “fresh, local and sustainable” food sourcing. Burgerville is confident consumer demand will remain strong for locally sourced foods, yet the company needs Pacific NW producers and supply chain partners who are willing to invest in long-term commitments to a regionally-focused food system. This case presents the challenges and opportunities for such a system and concludes by asking readers, “What would have to happen to have Pacific Northwest agricultural producers, agribusiness and food processors commit to locally-sourced food supply chains?”

Introduction

Jeff Harvey, President and CEO of Burgerville, hung up the phone in frustration bordering on exasperation. Yet another supplier, this time an onion grower from Washington State, was letting Jeff know that this may be the last year that he would be a supplier for Burgerville due to changes in his production and supply chain strategies. It was early August and Burgerville was in the middle of its seasonal promotion campaign highlighting locally sourced onion rings made from the region’s signature mild sweet Walla Walla onions. In the highly competitive fast food world of hamburgers and fries, Burgerville had made a name for itself in the Pacific Northwest by emphasizing not only good value for the customer’s money but also a set of core values that centered on service to their customers and local communities. As the company’s mission declared, “Serve with love.”

Early in Jeff Harvey’s tenure at Burgerville, he led the company’s efforts in pursuing a brand strategy that emphasized “fresh, local and sustainable.” In 2016, that sounds almost cliché but in 2004, the strategy was bold, novel and truly differentiating. USDA’s national organic standards were in their infancy and most major players in the food service industry were competing on price, location and menu diversification. No other fast food company demonstrated any interest in a market niche where a company’s supply chain strategies were directly linked to its brand name reputation.

But now, the dynamics were changing. What had once been a highly differentiating strategy was morphing into a new market segment with multiple players and new store formats including “fast casual” restaurants. Consumer preferences were motivating many

¹ Associate Professor, Department of Applied Economics, Oregon State University; and, President and CEO of Burgerville, a fully owned company of The Holland, Inc., respectively.
industry players to seek out local and sustainable suppliers, and many of Burgerville’s long-standing supply chain relationships were being stressed. Added stress was coming from Burgerville’s own successes in the market. The company had sustained its market success throughout the financial crisis of the late 2000s, and was once again opening new restaurant locations, including a highly publicized 2014 opening at Portland International Airport, and a much anticipated opening of a Burgerville restaurant in Corvallis, Oregon in early 2016. Even without the heightened competition for locally-sourced food, Burgerville’s growth and ever-deepening commitment to serving healthy, flavorful, locally-sourced food meant that their supply chain needs had grown. Their ability to find regional farmers, ranchers and growers to supply these needs was an ever-growing challenge.

But Jeff sensed that there was an even larger issue that was much more fundamental than supply chain logistics. “Fresh, local and sustainable” historically was a niche strategy with an emphasis on quality and personal relationships between supplier and customer. With national and international players now engaged in “local food” strategies, the stakes at the table had been raised. Bigger buyers seeking larger, more secure volumes of product were edging out mid-sized players like Burgerville. At the farm-level, scale and volume were driving production, marketing and capital investment decisions – yet again, US agriculture was being told – “Get big or get out.” And for those, like Jeff Harvey, who knew that this one-size-fits-all prescription for success seemed at odds with personal and company values, a breaking point was on the horizon. Even academics were asking, “Whither Agriculture in the Middle?”

**Background – US Restaurant Industry in 2015**

In general, analysts currently consider the fast food industry to be a “mature” industry with a five-year outlook defined by slow but steady overall growth and high levels of competition among companies within the industry. In its profile of this industry, IBISWorld notes that there is one segment with better than industry growth potential - “fast casual restaurants that do not offer table service, but provide a higher quality of food and ambiance compared with traditional fast food restaurants, have been experiencing particularly strong growth over the past five years (p. 8).” IBISWorld also reports that the US fast food industry (i.e., traditional fast food plus fast casual restaurants) generated over $225 billion in sales revenue in 2014, and that the “burgers segment” represents approximately 34% of these sales (as compared to 14% for sandwiches, 10% for chicken, 10% for Asian, and 9% for pizza). Exhibit 1 in the Appendix provides a list of leading restaurant chains in the burgers segment, along with estimates of their annual sales revenue and total number of restaurant locations.

The basic business model for this industry has been built on affordability (via intense price competition) and convenience (via location of restaurants, drive-through windows, and...

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2 At the 2015 annual meeting of the Agricultural and Applied Economics Association, researchers led an organized symposium entitled, “Whither Agriculture of the Middle.” As noted then, “Many small and medium sized farms...are too large to take advantage of growing opportunities in direct markets and too small to be competitive in global commodity markets (p. 95).”
extended business hours, and food orders that are prepared quickly). Extensive marketing
efforts and varying menu offerings also provided clear differentiation across companies
and gave consumers a wide variety of choices. In the past decade, however, consumer
preferences have evolved and restaurants are modifying this basic business model. Though
consumers still value affordability and convenience, health-awareness and food quality are
now important contributors to consumers’ restaurant choices, as are growing concerns
about food safety and growing interest in the “story” and “eating experience” associated
with their food purchases. In this emerging and still fluid market environment, restaurants
are being challenged to remain relevant to their customers and to be innovative and
adaptive to supply chain volatility.

Evolving consumer preferences are not always readily measured and quantified, but one
example of how these changes are monitored is provided by QSR Magazine, a leading
industry trade publication for the quick-service restaurant industry, which publishes an
annual list of “fast food trends.” These annual lists summarize the predictions of industry
insiders and though they are more anecdotal than rigorous in their approach, these lists do
capture shifting perceptions about emerging trends in the industry. Of the seven to ten
trends listed annually since 2010, a broader picture of consumer preferences emerges. The
following quotes capture selected highlights from QSR Magazine’s annual trends list,

• In 2010 – restaurants will strive to be more authentic; consumers will put more
  emphasis on sustainability; farm-to-table foods will be popular.
• In 2011 – consumers’ expectation that restaurants be more transparent will
  continue to grow; consumers will continue to demand to know more about the
  ingredients restaurants are using and how they are getting them.
• In 2012 – clean ingredients and a focus on fresh, local and organic foods; as
  consumers become increasingly aware why it matters how food is raised or grown,
  you’ll only continue to see people wanting better ingredients.
• In 2013 – going local; despite disagreement about what local really means, there is
  little doubt that consumers increasingly see it as a positive attribute; other close
  equivalents to local that consumers value include fresh, made from scratch, natural
  and locally sourced.
• In 2014 – ingredient transparency; people increasingly want to know about the
  ingredients, origins of foods, and know that it is being grown responsibly, which
  includes sustainability and farm-branded foods; freshness and quality are equally
  important and consumers are willing to pay a premium for better ingredients.
• In 2015 – local is starting to creep into expectations of dining; diners generally are
  demanding to know the origins of their food; environmental sustainability remains
  among the hottest trends.

Taken together, these quotes from annual industry insider predictions morph into a meta-
trend of “fresh, local and sustainable” as a major consumer-focused opportunity in the
restaurant industry. MarketResearch.com confirms this in a recently published report.
This comprehensive report, Shopping for “Local” Foods in the U.S., affirms this trend but also
offers some words of caution. A conclusion of the report is that,
For retailers, foodservice operators, and food marketers, “local” has become a shorthand descriptor that makes food sound high quality, fresher, more authentic, trustworthy, environmentally friendly, and supportive of the local community. It lends additional credibility to the products, particularly when the farmer or producer is identified in marketing materials with a good backstory (p. 13).

But the report also includes the following,

Most large restaurant and foodservice providers find it impractical to buy more than a few items from local sources. The economies of scale derived from doing their purchasing from major foodservice wholesalers usually make better business sense logistically, and small local farmers usually cannot provide food products in the quantities required (p. 86).

Rabobank’s Food & Agribusiness Research and Advisory group is less cautious in its assessment of the “buy local” food trend. In their 2013 report, “Local Foods: Shifting the Balance of Opportunity for Regional U.S. Produce,” the authors state,

Growing consumer demand for local foods has reached a tipping point, developing into a strong mainstream trend over the past decade and creating a structural competitive shift in the U.S. food industry. Local foods, similar to organic foods, have now evolved from a once quirky niche into a mainstream trend with further growth potential over the next five years.

Although not highlighted in the previous list of annual predictions, a second recurring or meta-trend emerges from QSR Magazine’s lists -- the growing importance of digital and mobile technology and associated social media outlets. Like those listed above, this second trend is included in QSR Magazine’s trend list every year from 2010 to 2015. This second meta-trend is particularly noteworthy because it has the capacity to be closely aligned with the first. Simply put, consumers want information to confirm that their food is “fresh, local and sustainable” and digital and mobile technology along with social media have the potential to effectively communicate this information.

The Burgerville Story from 1961 to 2015

Entering its 55th year in business, Burgerville is, and has always been, a company that is anchored in a core set of values and business practices. As noted by Darrell Brown and his co-authors in their case study, “Burgerville: Sustainability and Sourcing in a QSR Supply Chain,”

George Propstra founded Burgerville in 1961 when he opened the first restaurant in Vancouver, WA. Propstra followed in the footsteps of his father, Jacob Propstra, a Dutch immigrant to the area, who founded and owned The Holland Creamery, primarily an ice cream producer. George ran his restaurant with the same principles that he had learned from his father – buy local ingredients, treat your employees well, support the local community, and serve fresh, never frozen products whenever possible. Since 1961, the company, which is still owned by the family, has maintained these core philosophies.
There are no shortages of examples of how Burgerville has put into practice these core philosophies. The company has a long track record demonstrating its core commitments to sustainability, to their approximately 1,500 employees, and to the communities in which their 41 retail outlets are located. Accolades, awards and featured stories about Burgerville are notable for both the accomplishments that they honor and for the frequency with which they can be found when researching the company.

Equally impressive is the company’s ability to survive, adapt and grow in the notoriously competitive world of the fast food industry. Granted, this “success” is dwarfed by bigger companies. For example, Burgerville’s estimated annual sales of $125 million are less than one-third of one percent of McDonald’s $35.447 billion in annual U.S. sales. Even in the “better burger” segment of the burger restaurant industry, Burgerville still is small relative to segment leaders like In-n-Out Burger and Five Guys (ref. Exhibit 1). Yet, to Jeff Harvey, these statistics represent the very concerns he has about how companies, big and small, think about “success.” As he notes, “if potential supply chain partners are focused on metrics like continuously growing total annual sales and company scale and scope, Burgerville will be challenged to keep these supplier partnerships. Our focus is on sustaining our company’s viability and relevance to our customers while keeping our unwavering commitment to core values and mission.”

Burgerville has been an industry innovator and leader in local sourcing of food ingredients and the development of strategic supply chain partnerships with regional farmers, ranchers and food processors. Burgerville’s long history of buying local food ingredients has been both challenging and rewarding. Two anecdotes help highlight these dual dimensions of locally sourcing foods.

Mellie Pullman and her co-authors describe the relationship Burgerville shares with one of its largest suppliers in their 2010 case study, “Country Natural Beef: A Maturing Co-op at the Crossroad.” They report that Burgerville purchases up to 40,000 pounds of ground beef per week from Country Nature Beef, although this was not always the case. As the authors report,

Initially, CNB was unable to supply the quantity of beef patties when the chain decided to switch...to fresh natural beef. Burgerville executives decided to hold back their launch until the co-op could catch up. CNB eventually had sufficient supply for Burgerville as its overall production increased. In fact, the two companies have a symbiotic relationship; without Burgerville taking all the ground beef, it is not possible for CNB to sell the appropriate volume of higher end beef -cuts to the other customers because they need to sell all parts of the animal. The co-op became a major part of Burgerville’s vision and the restaurant became CNB’s primary restaurant customer (p. 14).

Julie Silverman, writing for The Associated Press, captured another example of Burgerville working with a local supplier. In her 2003 story, “Hold the cheese, please: Burgerville set to expand,” she tells the story of how two Pacific Northwest companies strategically responded to the California Milk Advisory Board’s Happy Cows advertising campaign that had been launched in the Portland, Oregon metropolitan area. Burgerville took two
counter-measures. First, the company posted its own billboards around town with the catch-tag, “California cheese? Surely you jest.” Second, Burgerville doubled down on existing local sourcing strategies. Adding to their existing partnership with Oregon-based Tillamook County Creamery Association, which was providing cheese for their menu item, Tillamook cheddar cheeseburger, Burgerville launched a new bacon blue cheeseburger with blue cheese sourced from Rogue River Valley Creamery, another Oregon-based cheese maker. All in all, a good story about companies finding ways to be successful together, but the untold portion of the story is that it took Rogue River Creamery four months to scale up production to produce enough cheese to allow Burgerville to launch the new bacon blue cheeseburger.

In both of these stories, a market opportunity and product innovation had to wait for supply-chain logistics and production capacities to catch up to the very practical, day-to-day reality of having an adequate volume of a desired input in order to deliver a product into the hands of a paying consumer. Despite these delays, or perhaps because of them, both stories have happy endings. And if the goal is to have more of these happy endings for Burgerville and its Pacific Northwest supply chain partners, then Jeff Harvey knows that he has to answer these critical questions,

• **In the Pacific Northwest, if “local” is an important delineator for food and agriculture, then can current market practices that are fine-tuned to the needs of large-scale, global agricultural supply chains be scaled “down” to work for mid-sized companies and agricultural producers supplying a regional market?**
• **And if not, what alternative market structures need to emerge? What's needed in order to have credible commitments made and sustained?**

**A vision for the future – regional consortiaums and supply chain partnerships**

A recent article in the Wall Street Journal highlights the choice that agricultural producers, food processors and food retailers are facing in today's market. David Kesmodel, the author of the article, examines the growing market for antibiotic-free, grass-fed and organic beef, and reports about the disconnect between growing consumer demand for these products and shortfalls in the beef industry's capacity to supply these products. Based in part on interviews with representatives of Country Natural Beef and Panorama Meats, the author of the article highlights some of the challenges associated with meeting consumer demand for these meat products, including:

• Perceived higher production costs and greater risks for ranchers;
• Comparable profits in conventional production practices for ranchers;
• Need for and an aversion to using long-term binding commitments between ranchers and their buyers;
• A need for ranchers to have a “visceral belief” in non-conventional production.

These challenges are not unique to organic or grass-fed beef industries, and hence this list provides a starting point for the final section of this case study. Burgerville’s commitment to sourcing locally is unwavering. Should Burgerville stop local sourcing of food
ingredients, the company would be betraying its core philosophies and mission, eroding its competitive advantage in the marketplace, and compromising a key dimension of its existing brand equity. As Jeff Harvey says, “Without our local partnerships with Pacific Northwest agricultural producers and food processors, we can create no certainty for Burgerville’s future given our commitments to our differentiating strategy of fresh, local and sustainable.” For Burgerville, meeting these challenges and overcoming them is imperative and critical to its very viability as a successful business.

A number of researchers have examined the challenges of regional and local food supply chains. These include,

- A 2006 study conducted by Portland State University’s Center for Sustainable Processes and Practices, Assessing the Market Dynamics of “Values-Added” Agriculture and Food Businesses in Oregon: Challenges and Opportunities;
- A series of reports published in 2012 by the UC Davis Agricultural Sustainability Institute that are related to “Food Hubs and Values-Based Supply Chains”;
- A 2015 study by Ecotrust, Oregon Food Infrastructure Gap Analysis – Where Could Investment Catalyze Regional Food System Growth and Development.

Synthesizing findings across these studies is a relatively simple task, as there are similar themes that are highlighted in each of them. Critical issues include the challenges associated with the distribution, aggregation, processing and handling of local production. Further, issues of scale economics, insufficient volumes and the need for consistent quality and at times, certification or other labeling documentation are also universally recognized. And finally, there is the critical importance of credible commitments, relationships and collaborative efforts to cooperate in order to reach shared goals. For example, Gail Feenstra and her co-authors examined 18 California values-based supply chains, and came to the following conclusions about what these supply chains had in common that contributed to their marketing successes (quoting, page 4),

- Growers are treated as strategic partners instead of input suppliers.
- Values-based supply chains are able to provide increased volumes and reduced transaction costs through aggregation.
- Products are differentiated by values, local branding or the identity and story of the people producing them.
- Rewards and responsibilities are distributed equitably across the supply chain.

These studies provide both the intellectual foundation for a greater reliance upon regional food systems that connect multiple participants in agricultural and food supply chains, and offer a general framework for transforming commodity transactions into long-term relationships. But ideas must translate into actions, and for this to happen, Jeff Harvey knows that he has to have answers to hard questions, including these,

- What capital investments are most critically needed within my industry and supply chains in order to make regional or local sourcing a viable and the preferred marketing strategy of input suppliers like ranchers, growers, farmers and regional food processors?
• What portion of an operation’s capital would a producer, packer or processor be willing to commit to these investments, perhaps as a partner in a joint venture with Burgerville or as a member-owner in a cooperative founded to aggregate, process and/or market Pacific Northwest agricultural and food products?

• Are producers and agribusinesses willing to risk lower short-term returns for long-term viability and a commitment to local and regional communities?

In the end, the fundamental question for Jeff Harvey boils down to this: “Who’s going to invest in local to make local work?”

The Case Study Challenge

Jeff Harvey, CEO and President of Burgerville, wants to know your recommendations for specific strategies, investments, incentives and negotiation priorities for building and sustaining local and regional supply chain partnerships for his company.
Citations and References


Beseda, T. 2011. “Food Alliance and Burgerville – Credible Collaborators or Colluding Cohorts,” Professor Peter Gourevitch’s online archive of student papers, School of International Relations and Pacific Studies, University of California San Diego. Downloaded December 1, 2015 from http://gps.ucsd.edu/_files/faculty/gourevitch/gourevitch_research_beseda.pdf


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Exhibit 1.

Note: Burgerville varies its menu both seasonally and by store location. This menu is not necessary “representative” of a standard, universal menu for all Burgerville locations. Up-to-date information about menu offerings is available at the company website.

Image downloaded on July 6, 2016 from https://www.zomato.com/beaverton-or/burgerville-2-beaverton/menu