

Further Processing What Are the Benefits?

Cliff Meyers

Procurement Specialist

K12 Services, Inc.

1602 Village Market Blvd.

Leesburg, VA 20175

Cmeyers@k12servicesinc.com

240-285-0105



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Who Is Cliff Meyers?

With K12 Services, Inc. since 2004

FSMC Procurement Department, (Wood Dining, Allentown, PA, Sodexo, MD).

Certified Purchasing Manager, Institute for Supply Management, Tempe, AZ (2003-2008).

Member American Commodity Distribution Association Board of Directors.

Member USDA's "Business Management Improvement" task force.

Current Procurement Specialist for Le-Nor-Co Purchasing Cooperative



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What Is Further Processing?

Further processing is one option “School Food Authorities”, “**SFA’s**” have to use their donated food entitlement dollars.

As a participant in the USDA National School Lunch program, SFA’s receive donated food assistance beginning with a dollar value or “planned assistance level” of **entitlement funds** each school year.

This is a formula based calculation made using previously served lunches and an index listed in the school lunch act. Each school year, SFA’s get new funding.

SFA’s have several options to use these funds. They include: USDA Direct or “Brown Box” foods, the Department of Defense fresh fruit & vegetable program and further processing.



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What Is Further Processing?

Further Processing is the result of SFA's requesting more flexibility from USDA in the use of their entitlement funds.

The program has a 50 year history beginning with pizza. The idea was to have USDA deliver cheese to the producer of convenience made products, saving time while making the item more consistent. The SFA would then receive the product at a discount because of the cost free ingredient the producer received.

The program takes a small number of USDA Donated Food codes as ingredients and allows approved further processors to provide a large number of finished foods to SFA's at a lower cost.



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What Are The Benefits?

Further processing greatly increases the number of food items that can be used in the SFA's program while still using entitlement dollars to lower the items cost.

Further processing benefits the SFA's finances when the food item is used in replacement of a full price equivalent. The benefit is incorporated into the financial statement in a number of ways depending on the "**pass through value**" choice.

Further processing can increase an SFA's control over access to donated foods. Processors work on behalf of SFA's to make sure they have received USDA donated foods in order to provide the SFA with discounted items.

If the processor has no USDA donated food inventory, they do not have an offsetting discount to provide. Some processors even sell to USDA to further ensure they have inventory to give discounts. No inventory, no commodity sales for brokers, distributors, processor and staff.



What Are The Benefits?

Contrast with “brown box”. State places request for items SFA would like. USDA buyer issues solicitation and waits for industry to respond. May or may not receive an offer. SFA has no control over this aspect of the process.

Further processing can also aide in commercial distribution solicitations. Incorporating entitlement dollars into your overall solicitation builds volume with potential distributors making your business more attractive. Larger drop sizes.

Many approved finished items are readily available and served on your menus today. Using your entitlement dollars to pass through a discount to your financial statement on items you use already is very efficient.



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How Does Further Processing Work?

Interested manufacturers/processors who intend to sell in more than one State first approach USDA to file and obtain a “**National Processing Agreement**”, (NPA).

This contract contains a number of key pieces of information. What USDA code the processors product uses, the amount of USDA donated food that is needed to produce a case of finished goods, reporting & auditing requirements, etc.

Much of what is included in the NPA is not imperative for the SFA to know. One piece that is important to view is the “**Summary End Product Schedules**”, (SEPDS)



What is A Summary Product Data Schedule?

This standardized Excel based form contains a listing of all processor offered and approved products that can be produced from a given USDA donated ingredient.

The form contains such information as the processor product code, description, pack size, portion count, amount of USDA donated ingredient required to produce one case of product, the discount value associated with that item based on USDA's per pound values of the donated ingredient.

Note: This particular form is intended for SFA's use and a copy should be available from each approved processor you are interested in.



What is a Value Pass Through Method?

Processors holding an approved **SEPDS** approach States in order to sign a “**State Participation Agreement**”. This abbreviated contract from the national, includes the types of transactions the processor is approved to use to “**Pass Through The Value of The USDA Food Donation back to the SFA**”. *(since your diversion of donated foods is with your processor, how do you get the value back?)*

There are four primary pass through methods:

Refund: SFA applies to processor for the value of donated foods contained in a finished case of product the SFA purchased at full price from a compliant solicitation. Note: This value can be found on the SPEDS.



What is a Value Pass Through Method?

The processor receives purchase data for the cases the SFA purchased and then writes a refund check to the district for as many cases as the SFA balance can support. (*more on the balance coming up*).

Pros: Often easy access to eligible product within distributor inventory, simplifies procurement.

Cons: Sometimes SFA's forget to apply for the funds, funds do not always get deposited into the food service account.

In a refund PTV, the SFA benefitted when they accounted for the refund check as “**revenue**” in their financial statement.



What is a Value Pass Through Method?

Fee For Service is another PTV. A processor charges the SFA a Fee For the Service of Further Processing a USDA donated food into a finished item. The price awarded is NET of a discount applied for the ingredient the processor received.

ALL Foods we use in service of our customers has a fee for service component!
This means commercial foods!

The SFA benefitted from this PTV when it paid the processor for a lower cost item than a commercial equivalent.



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What is a Value Pass Through Method?

Pros: Some SFA's can meet the processor minimum delivery volume and can then self distribute and avoid distribution fees from external sources like the State warehouse or commercial distributor. In other cases this volume could be used to increase buying power with the distribution community.

Cons: Separate procurement, separate invoice to pay. Often invoice is paid ahead of receiving finished items. Must keep an eye on inventory that may not be physically convenient to your operation.



What is a Value Pass Through Method?

Fee For Service Through A Distributor. Similar to refund, the SFA is looking to use a commercial distributor to warehouse and distribute a further processed item.

In this transaction, the distributor will purchase further processed items at the NET cost, (donated food discount already applied) and will only sell them to eligible SFA's, (no other customers).

The SFA benefits from this transaction the same way as with FFS. The financial statement included a lower cost of goods for these items.



What is a Value Pass Through Method?

Pros: Can increase buying power with commercial distributors. Can increase drop sizes enabling more effective negotiations. More of a just in time situation. Ordering smaller quantities as opposed to typical larger FFS orders.

Cons: Must have distributor participation in the administration of the program. Distributors must respect that these items can only be sold to SFA's.



What is a Value Pass Through Method?

“**NOI**” **Net Off Invoice** or sometimes called “NO IDEA”. Similar to refund, the SFA is looking to use a commercial distributor to warehouse and distribute a further processed item.

Processor communicates your available balance to your chosen approved distributor. When you order eligible products, the distributor will dispense the available product specific discount as a separate line item on your invoice.

When you receive the product in good condition, the distributor provides the data to the processor to be repaid. Distributor “fronts” the discount.



What is a Value Pass Through Method?

Often called the “**Rebate without the wait**”, NOI provides the value of the USDA donated food as a discount at the time of purchase, effectively Net Off The Invoice. (same displayed value as on the SEPDS).

Pros: Relies heavily on existing commercially available inventory. Increases buying power with distribution community. Often provides efficiency for distributor who may not have been in a position to warehouse and deliver similar boxes that went to SFA’s under FFS.

Cons: Needs the participation of the commercial distributor.



How Do I Take Advantage of Further Processing

Step 1: Understand what processors and pass through methods are approved in your State. Ask for a copy of an approved processor list and from that list, familiarize yourself with the sales person and broker of the processors you think you are interested in. Get SEPDS's

Review your known, winning menu. Look for opportunities to incorporate USDA donated foods/dollars into some of the products you already use or could use if the difference between them was small enough.



How Do I Take Advantage of Further Processing

Step 2: Familiarize yourself with State operations such the deadline for filing diversions for the following school year. A **diversion** is a request to have a USDA donated food sent to an approved processor rather than having USDA deliver that item to you!

Once you have a list of potential processors and specific items planned, you can decide how you want to conduct your procurement. Either ahead of the deadline so that you know whom you are going to divert with or after, in the spring when you conduct



How Do I Take Advantage of Further Processing

The majority of your solicitation. Note: many SFA's combine further processing and commercial procurement together into one process.

If the diversion you made is with a processor that did not win you award, ask the State to make a change in the diversion.

Once you have filed your diversion and completed your procurement, you need to communicate your choice of distributor(s) to the processor.



How Do I Take Advantage of Further Processing

Step 3: The processor will then communicate the “balance” or available pounds and dollars you have “deposited” with them to the chosen distributor.

When you order eligible product from the distributor, they will provide the discount or the discounted product to you. This goes for FFS, FFS through a distributor and NOI. (refund happens at a later date).

The processor will then receive your purchase data and will update its records to account for the reductions in inventory within that State.



What Do I Need To Focus On?

Key Point: A key to managing further processing is beginning with an accurate diversion of donated food to the processor. How many pounds do I need to send to the processor for next school year? This may be a calculation that you ask your broker or sales person for help with. Note: That may include some leftover “carry over” unused pounds from last year. If you do not have a specific amount in mind, consider targeting 70% of your entitlement to go toward further processing in total. Then monitor your ability to use that amount in the school year.



What Do I Need To Focus On?

Key Point: Compliant procurement of further processed foods is a requirement. The process of procurement you use is a factor of Federal, State and local regulation but if the program funds are used to pay for it, then it is subject to the procurement regulations.

Procurement of further processed items is very similar to purchasing commercial items. Knowing what is available and the various options is key to writing your solicitations so that you end up with the best product.



What Do I Need To Focus On?

Key Point: An important step often forgotten is to communicate your distributor choice to the processor. SFA's assume that after a procurement was conducted that the distributor or broker tells the processor that SFA "X" has chosen distributor "Y" to be their NOI or FFS distributor. This is often not the case at all.



What Do I Need To Focus On?

Key Point: Once you are in the new school year, make sure you are monitoring your further processing plan. That includes reviewing invoices to make sure you are getting your correct discount under NOI, receiving net price product for FFS and FFS through a distributor if that is what you contracted for. Check your invoices as often as you feel is necessary to make sure your USDA donated food discounts are flowing to your financial statements as intended.



What Do I Need To Focus On?

Key Point: In winter when you are beginning to plan your following school year use of donated foods, check your balance to make sure you have used at least 50% of your balances. The target is 10% use per month so that you will use all assets within the given school year.

If you make a habit of looking at your balance monthly, you are likely more aware of the opportunity and will likely find a way to use the pounds. Remember, the benefit of the program is only realized when we purchase and use items that contain the donated food.



Questions?

Cliff Meyers
Procurement Specialist
K12 Services, Inc.
Procurement Services Provider
16502 Village Market Blvd.
Leesburg, VA 20175
240-285-0105
Cmeyers@k12servicesinc.com



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