Franklin
FOODSERVICE SOLUTIONS
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Case Study: Prices and Policies

A leading foodservice manufacturer had a sense that their price structure and order policies no longer reflected their Total Cost to Serve. They were unable to explain the origin of their price brackets and price premiums, but knew that they had not been changed to keep up with increases in fuel and other Supply Chain costs.

In addition, there was uncertainty about the wisdom of encouraging Customer Pickups, and how to establish pickup allowances. The Supply Chain group felt that Pickup Allowances were being offered which far exceeded their cost savings, in effect turning them into Marketing Allowances.

Finally, there was confusion over the appropriate Order Minimum, and how to enforce it. While the company had a published minimum order size on their price list, Sales was continually offering exceptions to both small and large customers. The company was interested in raising their minimum, strengthening enforcement, and moving their small-order customers to redistribution service. But they were unsure of the economics of direct service vs. redistribution.

Franklin Foodservice Solutions was enlisted to help sort through the issues and establish a cost-based price structure and order policies.

Utilizing a combination of employee interviews and data analysis, we created a new view of the company’s outbound logistics and total cost-to-serve. We then calculated cost-to-serve on a “per pound” basis for a wide range of order sizes and types, taking into account both Order Management and Supply Chain costs.

We were then able to create a new price structure with rational bracket premiums based on total costs. In addition, order policies and pickup allowances were rewritten. These policies provided incentives for customers to order in a low-cost manner, or pay an appropriate premium for high-cost order patterns.

The impact on volume was minimal to non-existent, but costs were reduced while revenue was increased, for a projected profit gain of $1.8 Million.