

## Case Study: Redistribution Program Tune-up

A major food manufacturer had undergone a change in leadership. The new Senior Management Team was reviewing all programs and costs, and the value of the redistribution program was called into question.

Concerns included:

- How the redistribution allowance had been calculated, and how well it reflected cost avoidance
- Which customers should be encouraged to buy through redistribution, and which should be encouraged to buy direct
- The relationship between the manufacturer's price structure and the redistributor's pricing practices
- The overall value of the program

Franklin Foodservice Solutions was engaged to help sort out the facts and make recommendations.

We started by analyzing the manufacturer's total Cost to Serve for various order sizes, to provide a basis for evaluating Cost Avoidance when customers buy through the redistributor. We then factored in the manufacturer's revenue, and created a side-by-side comparison of "Redi vs. Direct" margins for all order sizes. This analysis clearly showed the positive financial impact of serving small-order customers through redistribution, as well as the potential negative impact when large-order customers buy through redistribution.

Now that we were able to see the numbers, we analyzed the mix of customers currently buying from the redistributor. When we overlaid their volume on the financial analysis, we were able to understand the total value of the redistribution program. In addition, the manufacturer could see the cost-savings potential of moving additional small-order customers from direct service to redistributor service.

We helped the manufacturer and redistributor to agree on the target customer definition, and make plans to convert those customers who were still "ordering wrong." We recommended changes to the order minimum, pricing practices and allowance structure to provide clear incentives for customers to order appropriately.

As a result of our work, the manufacturer reduced overall Supply Chain costs by \$844,000, and was able to aggressively promote redistributor service for target customers.

