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1. Getting SKU Rationalization Right

For several years, I have been writing about the problems encountered when manufacturers decide to “rationalize the product line.”

I rarely pass up an opportunity to talk with Marketing, Sales, Finance, and Supply Chain people, including some outside of the food business, about this topic. There is a lot of frustration out there! I’ve learned that the same challenges crop up consistently among various industries, and certainly across the food manufacturer landscape. What’s most troubling is that for many manufacturers, these same old problems crop up every time they start down the “SKU Rationalization” path!

The challenges include:

• Turf wars over “who owns the product line”
• Unclear financial benefits from rationalization vs. clear volume risk
• Operations and Marketing “talking past each other”
• Marketing and Sales feel no downside from a bloated product line (but Manufacturing and Supply Chain sure do!)
• Fear of alienating loyal customers

Based on these discussions and my own experience, we have been developed a Product Line Optimization methodology that addresses the key issues head on. It takes into account the realities of the marketplace as well as the financial data. And it gets everyone on the same page so decisions can be made rationally, not emotionally.

If your company struggles with SKU Rationalization projects, contact Franklin Foodservice Solutions to learn more about how we can help.

Learn more by visiting www.Franklin-Foodservice.com or by calling (239) 395-2787.

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2. Landscaping

As my neighbors will attest, I’m neither a gardener nor a landscape architect. But a few years back we planned a graduation party at our house, and it was time to tidy up the homestead.

So we went after some areas that had been neglected over the years. No “jungles,” mind you, but some places in which we’d pretty much gotten used to seeing the weeds. And some others where we’d planted nice plants, but hadn’t really tended to them. And a place that was neither lawn nor planter, but something in between.

We pulled weeds, moved ground cover and a lot of dirt, laid down mulch and gravel, and built borders. We pruned low branches and removed “suckers” from the bases of mature trees. And when we were done, something amazing happened.

The plants and flowers that had been there all along suddenly seemed to jump out at us with a whole new beauty. Even the trunks of the trees looked new and fresh. And the whole property took on an organized and coherent appearance which we hadn’t noticed was lacking just a few weeks before.

And I found another analogy for our foodservice business!

If your product line has proliferated without regular tending, your prize products are probably being obscured by the “weeds” which you’ve neglected to pull as you became aware of them. If your product list is a confusing profusion of brands, categories, flavors, and sizes, chances are your sales managers have a hard time making sense of it. And if your own people are overwhelmed, how can you expect a broker or distributor sales rep to recognize and sell the real winners in your line?

There are two excellent times to do your landscaping work and optimize your product line. The first is when you are adding promising new products to your line. “Weeding the garden” at the same time will not only please your distributors by opening slots, but will help your sales force and customers “see” the new products more clearly. The other is early in your Annual Planning process, so that the entire organization can build their numbers around a streamlined product line.
3. Is It a SKU, Or a Product?

Years ago, I wrote about the challenge of “SKU Rationalization” projects, citing a friend who says they always end up becoming “SKU Justification” projects. Now that I’m immersed in another major project of this type, I’ve become acutely aware of how the differences in language used by people reflect the differences in their attitudes toward the product line.

For example, when new products are being developed and launched, the language ranges from businesslike (“concepts” and “platforms”) to almost family-like (“sister categories” and “new babies” which need to be “nurtured”). Only when someone determines that the product line is bloated do these products in which the company has invested so much energy become mere “SKU’s,” or even “dogs!” And it seems that once we start referring to products as “SKU’s,” we are giving ourselves permission to forget all of the good reasons we conceived, developed, and introduced these products in the first place.

Now don’t get me wrong. Taking the emotion out of the product-line rationalization decision is one of the best reasons to bring in outside resources to help. One of our most interesting tools is a rainbow analysis which uses side-by-side bar charts to demonstrate the % of products producing each 10% of sales volume. It’s not unusual to show 60% of the products (often hundreds of products) producing the bottom 10% of volume, and only 2-5 products producing the top 10%. It’s a sobering way of seeing the product line in a new light, and often helps remove the barriers to a healthy discussion of trimming it down.

Yet at the same time, a 100% cold-hearted approach is not only disrespectful, but foolhardy. One can look at the rainbow analysis and conclude that the hundreds of products supporting the bottom 20% of volume are like the foundation of a great skyscraper. Everyone likes to look at the shimmering architecture, but no one thinks about the tons of concrete and steel below the surface that hold it up. Likewise, some would argue that without all of the “must-have” products that eat up so many resources, they would not have the few high-volume star products that represent the majority of revenue and margins.

So the art is in finding the balance between head and heart, rational and emotional, fact and myth when making recommendations on products to discontinue. It involves doing the math, but also doing the deep dives with Sales and Marketing to understand the true impact of product discontinuation. It requires acknowledgement that all of these decisions involve some level of risk, and concrete plans to minimize that risk.

And to help make that point, I’m going to try to stop using the term “SKU Rationalization,” and instead call it what it really is…“Product Line Rationalization!”
“The U.S. needs very few additional calories, but our food industry has not yet come to grips with this reality.” – Robert Ludwig and Kent Sisson, “Life After the Roller Coaster Ride”

The above quote is from a paper released by The Hale Group, urging people in the agriculture and food industries to rethink their approach to the export business in a changing world.

But it also took me back to a recent meeting of several broker agencies, in which we discussed the role of new products in foodservice manufacturer strategy.

The general theme was:

“Operators and distributors are hunkered down, 100% focused on cutting costs and hanging on to every piece of business they have. But despite the slow economy, many of our manufacturers continue to run the new products machine at full speed, as if the marketplace can’t wait to see another load of ‘me-too’ products!”

From the broker agency’s point of view, the “new products market blitz” sucks up huge amounts of time and resources, critical assets that are in limited supply. Moreover, many brokers feel they have developed a keen ability to sniff out the losers before they even make the first presentation, saying “we pretty much know instantly which products will never give us a return on our time!”

When you add the often-overblown volume expectations of the manufacturer, you’ve got a recipe for wasted time, disappointment, and bad feelings for manufacturers, agencies, distributors, and operators. Does anybody need more of that?

For the time being, wouldn’t manufacturers be wise to get their Marketing and R&D staffs focused on making existing products better? If these folks spend some time in warehouses and kitchens and dining rooms, watching their products perform or fail in the real world, they should have no trouble imagining and developing true improvements. Better flavor, texture, appearance, packaging, lower cost, easier handling and preparation and smaller portions are but a few of the levers that can be pulled. Making the flagship products better is a great way to insulate them from competition, especially price competition.

And maybe it’s time for broker agencies to remind manufacturers “I have a limited amount of time to spend on your line – how much do you want me to spend on these new items vs. defending and building your core business?”

Tough questions, but then, these are tough times!
5. Rationalize THIS!

“Why should we cut products when everyone’s scrambling for every sale we can make?”

This is a common refrain from Marketing and Sales people whenever the subject of Product Line Optimization is brought up (usually by Operations and/or Finance). And it’s a fair question.

The answers are usually obvious to those who have to schedule production, manufacture products and manage inventories. They include:

- Reducing inventory and the carrying costs associated with inventory (both raw materials and finished goods)
- Reducing the cost of change-overs
- Reducing the complexity of short runs and the “learning curve” associated with infrequent runs
- Reducing waste of scarce resources
- Sharpening the company’s focus on star performers
- Improving service levels

But as we’ve said before, Sales and Marketing generally don’t feel the pain associated with too many products, so don’t have much appetite for the cure.

This is why it’s so important to attempt to quantify the benefits of rationalizing the product line, and also to offset much of the fear that accompanies these projects.

While the benefits will never be as clear as the risk, it’s helpful to put forth a best estimate as a counterbalance to the potential lost sales revenue. And it’s even more helpful to quantify the potential lost revenue, then realistically predict how much volume can be saved by selling in substitute products.

By shedding the light of day on topics that usually get swept under the rug, we find that Marketing and Sales can at least jump on board, if not grab a paddle!
6. Are We Ready for Category Management?

While I've heard rumblings about Category Management in foodservice, I personally know of only a few major manufacturers and one major distributor who are actively pursuing it. Call it what you will, the notion of paring away duplicate and unnecessary items in order to focus on true winners is right on the money.

Karen Ribler wrote some interesting comments in idaccess about the manufacturer’s role in getting the process started. Read on:

ARE WE READY FOR CATEGORY MANAGEMENT?
By Karen J. Ribler

The year 2005 was heralded as the year for foodservice category management implementation. Indeed, some momentum was achieved last year. Using the EFR (Efficient Foodservice Response) definition as a tactic, many manufacturers showed interest in facilitating the process on behalf of their customers and, as a result, a degree of progress was made by a handful of foodservice distributors.

In observation, to date, much of the supplier motivation for participating in the process appeared to be turf protection and the approach – although labeled category
management – appeared to apply the same old sales tactics based on greater insight, which has facilitated old-fashioned SKU rationalization.

Not trying to be harsh, we are not reporting that the effort bore no quantifiable fruit. The IFMA/IFDA President’s conference dedicated a whole segment, spotlighting the measurable advancement achieved through the implementation of software as well as the specific success achieved by one foodservice distributor’s DC that implemented the software to support its category management process with great results.

Furthermore, we can easily identify a handful of foodservice distributor organizations that “got it,” that is, truly embraced what category management could do on their behalf and took control of the process and thus benefited from greater supplier/distributor communication, a more focused salesforce and greater customer communication. Plus, other foodservice distributors that wished to embrace category management tenets did seek supplier partnerships, began to have more forthright communication and did pursue the objectives promised by category management implementation with some impressive results.

IDEOLOGICAL DISCONNECT
Nonetheless, something was missing. The EFR definition casting category management as a distributor tool has been taken too literally. There exists an ideological disconnect “upstream,” within the supplier’s own product assortment. Assessing category management as a great process for their customers to use, many manufacturers have failed to gauge or act on the strategic benefit this process might have for optimizing their own operations.

This lack of upstream housecleaning has always been a speed bump to the supply chain’s ability to fully benefit from the efficiencies that category management has to offer. The benefits enumerated by EFR for distributor use hold true for the manufacturer. These motivational factors for implementing the category management process include:

• Achieving lowest acquisition costs
• Reducing inventory
• Improving service levels
• Attracting targeted customer segments
• Enhancing supply chain relationships

In teaching category management to foodservice manufacturers, we have always maintained that to be an effective category management partner, you have to have done your homework within your own operation.

To learn how to optimize your product lines even further, subscribe to the Foodservice Marketing Insights E-Newsletter where you’ll not only learn about sales and marketing strategies, you’ll also get access to our library where you can view webinars such as Getting SKU Rationalization Right.
More from Karen Ribler’s idaccess commentary:

DON’T ROCK THE BOAT
Sales and marketing are rewarded for their efforts in not rocking the customer boat and for their efforts to obtain greater sales, regardless if the sales are ROI contributors to their organization. Given this dynamic, Dave DeWalt of Franklin Foodservice Solutions observes that “unless you have capacity constraints, it is hard to see the financial case to achieve product line optimization.”

The process put forth by DeWalt parallels the internal category management process the community has acknowledged for distributors. According to DeWalt’s observations, the key to implementing the process with success is based on marrying quantitative financial, item movement, and customer data with qualitative input from a representation of players, i.e. marketing, sales, finance, operations and IS. DeWalt placed team leadership for the manufacturer’s internal efforts in marketing’s hands and suggested that all parties “deal with” the same information.

Acknowledging the hard work of gaining visibility regarding product performance, DeWalt suggests that suppliers begin their initiative by focusing on problem products, not the entire line. Like the internal distributor category management process, he also affirms the importance of having executive commitment and being ready to take action once agreement on the plan has been obtained.

DeWalt notes the first step, when initiating the process, is to identify candidate products that will make a difference to the organization’s bottom line. He notes the company financials using volume and gross profit or variable margin analysis will highlight potential ROI killers and meek performers. He states that input from operations and logistics should be sought, requesting an enumeration of products that they dislike and why. The analysis should also take into account the identification of redundancies within the line, how products are being used by customers and the possible opportunity for product substitutions.

The comments presented by DeWalt were right on the mark, supporting manufacturers’ needs to gain visibility to their most profitable items as well as their costly cousins and take action against this information.

From our perspective, the process he described is the first step for manufacturers in truly moving ahead with foodservice category management.
8. National Brands and Innovation

Recent issues of Foodservice Marketing Insights have explored the role of brands in foodservice, as well as the nature of demand and our ability to influence it via innovation. In the past few weeks, two articles have surfaced which shed additional light on these topics.

In the first, stock analyst Jim Jubak praises Procter and Gamble as a “Brand Name Survivor in a Wal-Mart World.” Although the article clearly has a retail consumer focus, the lessons pertain to foodservice as well.

Jubak asserts that “store brands are no longer the lower quality knock-offs they once were.” (We can substitute “distributor-label” for “store brands.”) He states that consumers understand that many store brand products are “produced in the same factories as the brand products are.” (I’m pretty sure most operators have figured this out as well.) Then he poses the question, “so what can possibly justify paying a premium price for Pampers or Crest over the store brand?” His answer: “Innovation.”

According to Jubak, the growth of private label has “redefined what it means to be a brand. That change has led to the death of the traditional brand.” He goes on to make the case that in the old world of “traditional brands,” consumers were willing to pay a premium because the brand name represented “familiarity” and “quality.” Now that private label is firmly entrenched and the quality playing field is essentially level, the demand for national brands is driven by different forces. Jubak writes “in the post-brand world, consumers pay a premium price for the brand because of product innovation. Newness rather than familiarity sells.” So if you’re managing or selling an old-time brand, you’d better not be counting on familiarity and your reputation alone.

In “Food Makers Push New Items”, Brad Dorfman writes that “packaged food companies...are preparing a further drive for new products to justify higher prices and win shelf space at a dwindling number of retailers.”

“The number of new food items has jumped, reaching 14,826 in 2004, up from 13,200 in 2000...but analysts question whether new products help the industry increase sales or just keep companies from losing share to private label brands.”

“It’s not clear that this is accelerating things,” Andrew Lazar, an analyst at Lehman Brothers, said. "Still, the stock market tends to reward food companies that can come up with new products.”

It seems that whether innovation creates a bigger pie or staves off private label, it’s an important ingredient in the future success of branded food companies. If you agree that private label has achieved parity on quality, and will always win on price, you owe it to yourself to make sure your company maintains and increases your lead on new product innovation.
9. It’s Not “Thumbs Up or Thumbs Down”

One of the reasons “SKU Rat” projects invoke fear in the participants is the feeling that every product will be subjected to a “Thumbs Up or Thumbs Down” decision. So the Sales and Marketing people fear that their pet products will be unfairly voted off the island, while the Operations and Supply Chain people fear that obviously guilty products will be given a stay of execution, or even a lifetime pardon.

But we’re not Roman Emperors at the Gladiator Games, are we?

No, we’re rational business people trying to decide together what’s best for the overall long-term health of the business. And that demands a more elegant, nuanced set of decisions.

The Product Line Optimization process should result in a list of products which are going to be discussed and for which Action Plans will be made. Yes, there will probably be some easy “Thumbs Down” decisions which the entire team can agree on. But if there is any hesitation, the team needs to consider other options besides “Thumbs Up and I don’t want to hear another word about it!”

Other potential Action Plans include:

**Up or Out:** An agreement that volume and/or margin need to improve in 3-6 months, or else the product will be dropped on the next round. This forces the team to identify specific steps that will be taken immediately to improve performance, with a clear understanding of what criteria must be met for the product to survive.

**Reconfigure:** I’ve seen companies review their product line and discover that several products have very close or even overlapping specifications. New case counts and portion sizes are often added in boom times, but they become unnecessary luxuries later. It is often possible to combine two or more similar products into a single product, and hang onto most if not all of the customers and volumes.

**Tolerate:** This is a conscious, documented decision to keep a product which looks bad “on paper.” There are certainly legitimate strategic reasons to tolerate some products which Operations would identify as losers; for instance, a special product for a chain which also purchases major tonnage of other products. The point is to document the reason for these products’ existence, so that they aren’t brought up for review again and again.

If the entire team goes into the project understanding that it’s not a life or death decision, most of the fear can be avoided and more rational decisions will be made.

If you’re thinking of revamping your redistribution strategy, be sure to take advantage of Franklin Foodservice Solutions’ other **free eBook**.
10. Communicate, Communicate, Communicate!

So you’ve gone through the process and agreed on a meaningful change to your product line. Now it’s time to implement the change and begin reaping the benefits.

But without a well-thought-out communication plan, it can all come unraveled.

The plan, including all action steps, should be documented noting all parties that will be affected and the steps that they are to take to make a smooth transition. Your customers, broker agencies, sales field, customer service people, and all internal departments must be informed of the timeline, rationale behind the timeline and actions to be taken. Someone has to track inventory levels and make sure Customer Service is up-to-date on projected runouts. Someone has to manage raw material inventories to minimize the writeoff and dispose of obsolete inventory promptly. And someone has to “tell the story” so all salespeople and brokers are singing from the same hymnal when talking with customers.

If you’ve run the process correctly, it should be a relatively easy task to put together a list of discontinued products, reasons for the discontinuation, and projected runout date. This should be provided to all involved parties, and updated as necessary.

This will help to ensure a smooth implementation, and minimize the hard feelings that can crop up when customers feel they aren’t getting the whole story. Done properly, your communication effort will be the final step in a successful Product Line Optimization project.

Call (239) 395-2787 or contact Franklin Foodservice Solutions online today.