



# Foodservice Manufacturer Pricing Practices

## Report of Survey Results

November 2015

*Franklin*  
FOODSERVICE SOLUTIONS



PRICING  
solutions

# Background and Methodology

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This report is based on results of an online survey of foodservice manufacturers, conducted in September 2015. Identity of participants has been withheld to protect confidentiality.

The survey questions were mainly in the “multiple choice” format, which allowed us to correlate the responses to the Pricing Solutions “World Class Pricing Maturity Level” model shown below:



This report shows the weighted average of survey results, as well as the range of responses. The responses support our experience that foodservice pricing practices are evolving, with most manufacturers indicating their current pricing maturity between “Level 1 - Ad Hoc” and “Level 2 – Control.” That said, longer-term the majority aspire for “Level 3 - Value-Based” Pricing.

We welcome your questions and comments at [dave@franklin-foodservice.com](mailto:dave@franklin-foodservice.com)

# Summary and Key Findings

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There is a wide range of responses to most questions, indicating varying levels of pricing sophistication among participants. This is consistent with an industry going through transition, and in fact several respondents specified that Pricing Strategy had not historically been an area of focus but that it is emerging in its importance. In general, as participants are looking for new sources of profit improvement, they are striving to move their pricing approach from the “Ad Hoc” level toward “Control” with the goal of pricing based on “Value.” Conservatively, companies can expect a 1-3% increase in net profit margin as they move up each level. For a company with low single digit margins today, this is significant!



The survey results support our experience that Foodservice Manufacturers and Distributors are increasingly looking to adopt a more sophisticated approach to pricing. As with Category Management and National Broker Representation, the Foodservice channel is beginning to implement Pricing approaches which are commonplace in the Retail channel. While we may never have the quantity and quality of data provided by Point of Sale scanners, Foodservice Manufacturers increasingly have access to market data which is valuable in the development of effective Pricing Strategies

# Q1: Do you develop an annual Foodservice Pricing Strategy that aligns with your changing Business Strategy?



## PARTICIPANT COMMENTS:

*"Yes, but 2016 is our first year of doing this"*

*"We tend to look at input cost and react in the moment"*

## PRICING SOLUTIONS PERSPECTIVE:

Companies who invest time and effort in developing a detailed Annual Pricing Strategy learn that it pays off in:

- Clarifying and simplifying complex pricing decisions
- Alignment of all resources involved in the pricing process (e.g. Sales, Marketing, Finance, Operations, Product Development)
- Improved financial results

Annual focus on pricing improvement easily drives 1-2% in bottom line improvement

## Q2: How well can your Sales Team articulate your annual Pricing Strategy?

Survey  
Average

Level 1

World Class Pricing Maturity Level

Level 5

Range

### PARTICIPANT COMMENTS:

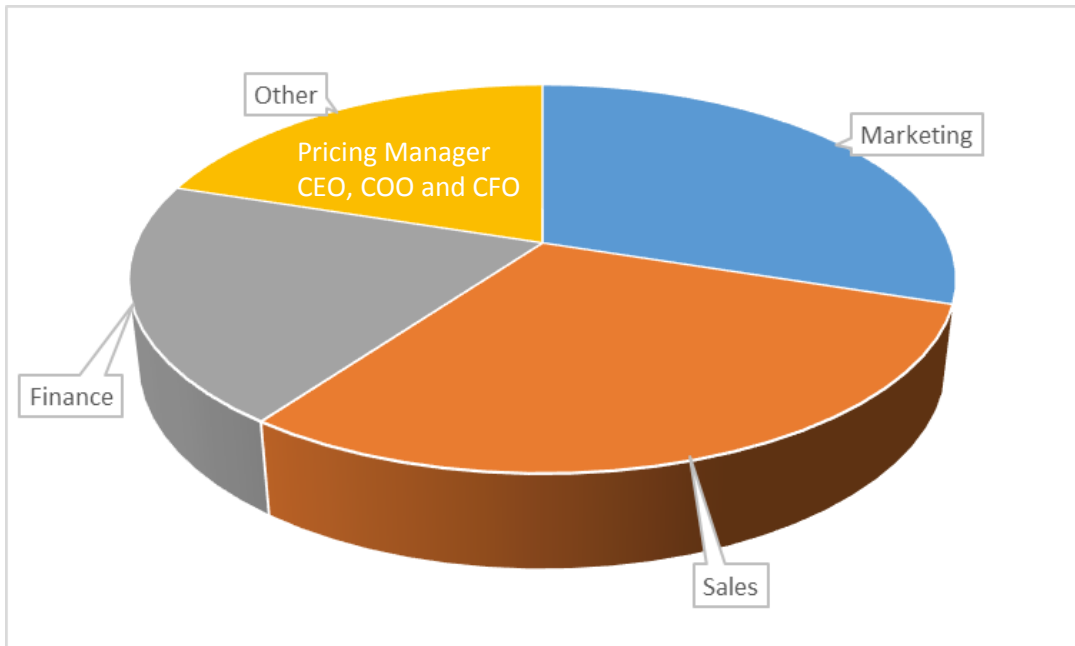
*“First time, so we are still educating and gaining understanding”*

*“Most blame it on the company”*

### PRICING SOLUTIONS PERSPECTIVE:

There is often a natural disconnect between Sales and the “home office” (Marketing and Finance) when it comes to pricing decisions. When the Pricing Strategy is clear and well-communicated, Sales is empowered to execute against it with confidence, and the workload involved in executing new deals is greatly reduced.

### Q3: Who has responsibility for developing Foodservice list prices and discount policies?



#### PRICING SOLUTIONS PERSPECTIVE:

Level 1 Pricing is commonly driven by Sales. As organizations move to add Control (Level 2), Finance typically plays a larger role. In these cases it is important to establish reasonable “guardrails” within which pricing decisions can be made without time- and resource-consuming escalations and exceptions.

And as organizations move to Value-Based Pricing (Level 3), Marketing plays a much larger role. An effective Marketing department is best able to combine marketplace insights (from customers and competitors) and internal considerations to make effective pricing decisions.

## Q4: Do your “best customers” always get lower prices than your “worst customers?”

Survey  
Average



### PARTICIPANT COMMENTS:

*“In our new program, efficient customers will gain the lowest price”*

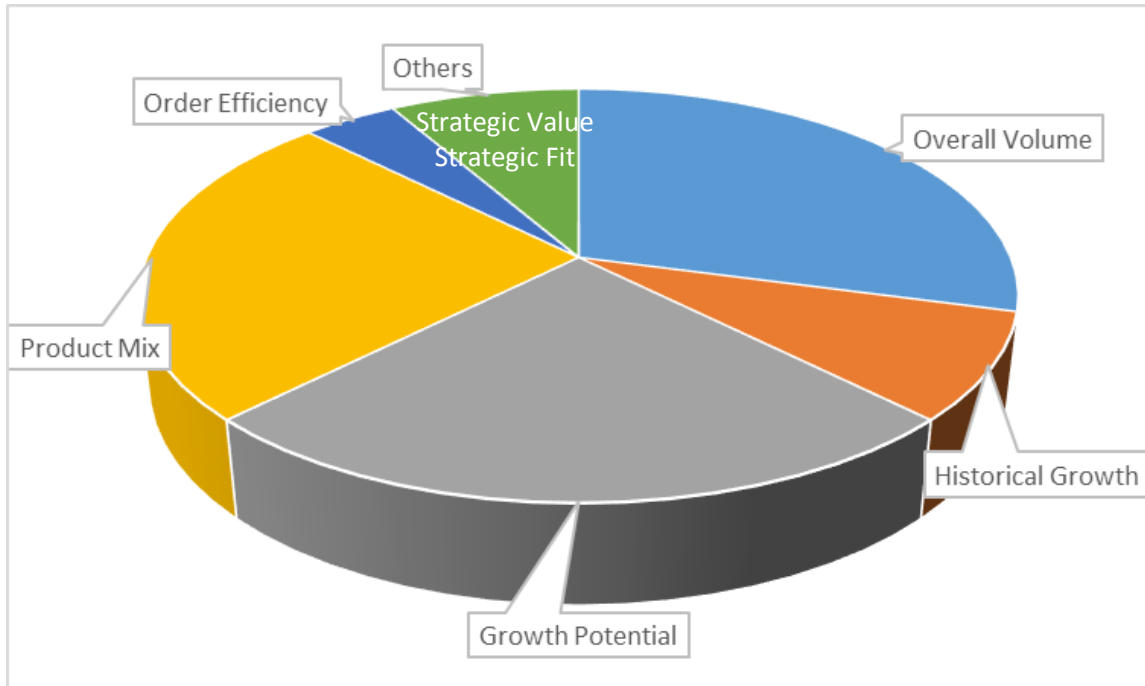
*“Our pricing is weight and bracket based and all customers receive equal treatment from a pricing execution standpoint”*

### PRICING SOLUTIONS PERSPECTIVE:

Customer segmentation is a key principal in our approach to pricing. The balance between “value provided by the supplier” and “value provided by the customer” can be quantified and used to establish clear customer segments.

When customers are priced based on rational segmentation, the balance between volume and margin is optimized. And customers learn what they must do in order to qualify for lower prices.

## Q5: How do you define your “best customers?”



### PRICING SOLUTIONS PERSPECTIVE:

The above criteria are typical factors to consider when segmenting customers. “Overall Volume” is a great starting point, as customers whose volume drives cost efficiency should receive favorable pricing. But it is not enough.

Customer segmentation should also take into account Cost to Serve (e.g. Order and Logistics efficiencies) as well as Business Value (growth, share, portfolio mix, etc.)

Every supplier should create a customized list based on customer characteristics that best define the value provided and received. And each characteristic should be weighted to reflect its relative importance to the supplier.



## Q6: Do your most differentiated (highest value) products earn better margins than your least differentiated (more commodity) products?

Survey  
Average

Level 1

*World Class Pricing Maturity Level*

Level 5

Range

### PRICING SOLUTIONS PERSPECTIVE:

As with Customer Segmentation, a clear Product Segmentation based on unique value provided to the customer is a best practice. We challenge our clients to take a disciplined, “hard-nosed” look at their products compared to all reasonable substitutes in order to clearly identify points of differentiation from the customer’s perspective.

This exercise generally yields new insights into the criteria which provide value, and the relative weights of each. And the results often cut across traditional “category” and “brand” segmentation. In fact, within a given product line we expect to see products which are both low-differentiated commodities and products which are highly differentiated. Proper segmentation will allow all products to be priced appropriately.

## Q7: Do your 2016 initiatives include Pricing Improvement goals?

Survey  
Average

Level 1

*World Class Pricing Maturity Level*

Level 5

Range

### **PRICING SOLUTIONS PERSPECTIVE:**

The world's best pricing organizations view continuous pricing improvement as a cornerstone of their success. Best practices include updating the Price Strategy annually to reflect changes in the overall business strategy. This process is supported by detailed Pricing Improvement goals with specific financial improvement targets.

A simple but effective approach is to set pricing targets by product, and focus on raising the bottom performing customers (e.g. the bottom 10%ile or 25%ile) to this goal.

## Q8: What are your Top 3 Pricing Goals and Challenges?

### RESPONSES GENERALLY FELL INTO 4 “BUCKETS”:

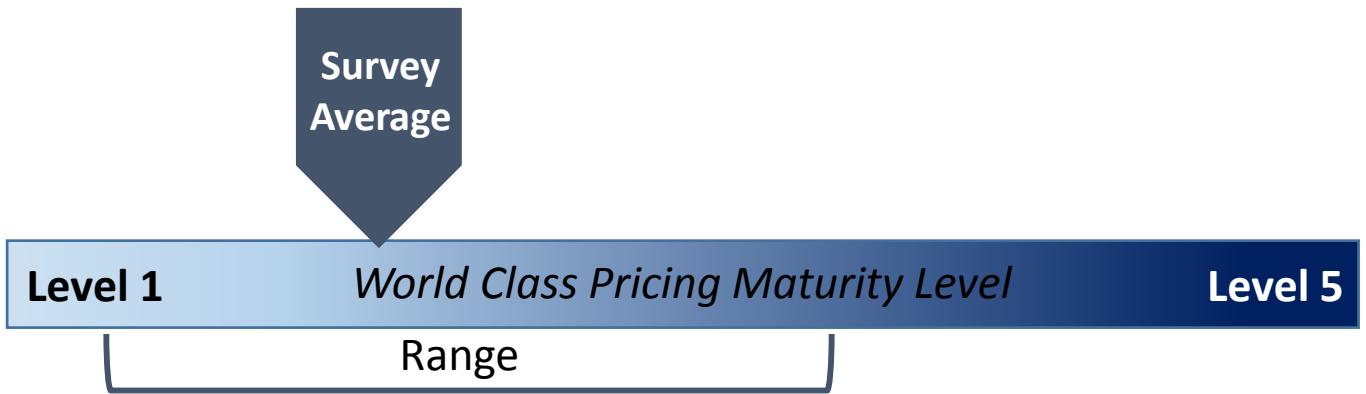
1. Lack of Pricing Discipline (too much power in Sales, fear of volume loss, “everything is negotiable in foodservice”)
  2. Lack of Market Intelligence (competitive information, current market price levels)
  3. Understanding Price Elasticity when contemplating price actions
  4. Systems Issues (managing deviated prices and deductions)
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### PRICING SOLUTIONS PERSPECTIVE:

The Foodservice channel is often regarded as a data wasteland which defies sophisticated approaches, and where success is determined by one’s ability to “make the deal of the day.” Our experience indicates that there is more than enough information available to support development of a disciplined foodservice pricing strategy which will lead to higher profits.

The emergence of Category Management and the automation of Trade Management have provided more and better data which manufacturers can turn into actionable information to guide pricing decisions.

# Q9: Does your Sales Compensation program reward the successful selling of higher prices?



## PRICING SOLUTIONS PERSPECTIVE:

In most Foodservice organizations, Sales people are encouraged to sell at higher prices, but rewarded for bringing in volume. And even when companies include price or margin targets as part of the Sales Compensation program, they are often weighted so low that they have little impact on results. In our experience when a significant portion of the incentive program is based on selling at or above target margin, behavior is modified and pricing results are achieved.

# Q10: Do you have a process for capturing wins and losses data to guide future pricing decisions?

Survey  
Average

Level 1

*World Class Pricing Maturity Level*

Level 5

Range

## PRICING SOLUTIONS PERSPECTIVE:

Many Foodservice organizations cite the “lack of data” as an excuse for failing to capture and document Wins and Losses. While we may not enjoy the benefits of electronic scanner data, in our experience, Foodservice organizations have a wealth of helpful information.

An organized process for capturing and documenting Wins and Losses data will provide improved understanding of market prices and clear direction for pricing the next opportunity.

# Closing Words

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## An invitation to continue the conversation....

The results support our belief that most foodservice manufacturers have a tremendous opportunity to build profitability by developing and implementing an effective Pricing Strategy. Remember, companies can expect a 1-3% increase in net profit margin as they move up from Ad Hoc Pricing to Control...and then again from Control to Value-Based Pricing. For a company with low single digit margins, this is significant!

The journey to World Class Pricing can be a long one, but the path is clear and the rewards are great no matter where you currently stand.

Please know that this report was intended to be the start of the conversation. We welcome the opportunity to have a more in-depth discussion whenever you are ready.

Please feel free to contact us at any time.

Regards,  
Dave and Kirk

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