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"Food for Thought" - calls attention to an excellent interview with author Michael Pollan

"Fedex for Foodservice?" - suggests a new model for manufacturer/distributor transactions which could eliminate much of the acrimony we currently endure

"No Simple Answers" - latest in a series of articles about chain and special-priced business through redistribution, with a call for readers to contribute to the discussion

I think you'll enjoy this month's issue. It calls for some "audience participation," starting with clicking on a link to listen to a fascinating interview about food, politics, and national security. The second commentary asks you to think about a new and possibly better way of conducting business between manufacturers and distributors. And the final article is about my efforts to help clarify a complex topic around redistribution. If you're interested, I'll send you a "beta version" in return for your comments.

So please get involved and let me know your thoughts; I'll share the best of them in a future issue.

Tell Dave

And as always, thanks for reading.

Dave

"Food for Thought"

As you well know, there has been a lot of talk about reducing the "carbon footprint" of the food industry. The online newsletters regularly cite examples of independent operators who are making over their menus to feature locally-grown products, with a goal of sourcing everything from suppliers within a tight radius of their restaurants. Some upscale grocery stores are likewise trumpeting their selection of meats and produce which require minimal transportation to the marketplace.

It's a noble, right-minded goal but I'm not sure how practical it really is.

A few weeks ago, the NPR program "Fresh Air" featured an interview with author Michael Pollan, who has written several books about the food business and the politics of agriculture. Like many of you, I tend to think about the food supply chain pretty much as "finished product from a manufacturer to a distributor to an operator to a consumer." But listening to Michael, one begins to see the much bigger picture, and to understand why things work the way they do. And he makes it clear that we are going to have to wrestle with some major issues in the very near future in order to stave off serious problems.

For instance:

-our need for foreign oil, and the resulting economic and security threats, are driven in large part by agricultural policies

-because animals are no longer raised on farms, but on feedlots, we no longer have manure on feed fields

  -instead, we use fossil fuel fertilizers

  -and manure on feedlots is a huge environmental issue

-we import tomatoes from Mexico and export tomatoes to Mexico

-we import sugar cookies from Denmark and export sugar cookies to Denmark (somebody said "wouldn't it be easier to just exchange recipes?")

-the consolidation of farmers and processors means very few people live in the farm belt, so it's very difficult to have the "local food systems" envisioned by the progressive restaurant operators and grocers mentioned above

-for years, it cost $3 to move a box of broccoli from Salinas to the Hunts Point terminal in New York; now it costs $10

-as a result, some California growers are buying farmland in New England, betting that reduced transportation costs will more than offset the shorter season and other difficulties

My few notes don't do the topic justice. I suggest you find a time when you have 45 minutes, grab a cup of coffee, and listen to the interview yourself - I think you'll enjoy it.

You can find it at:

Michael Pollan-Fresh Air

"Fedex for Foodservice?"

Years ago, I read a book by consultant Glen Terbeek, suggesting ways the retail grocery supply chain could be improved.

One point which stuck with me was the idea that distributors should not take ownership of manufacturers' products, but instead should charge a "distribution fee" for their services. Terbeek writes, "the third party distributor does not buy and resell the product (any more than Federal Express buys and resells the packages it delivers). Rather, it earns a *distribution fee* for doing something better than the individual (trading partners) can; i.e, timely and effective logistics."

On the one hand, it's a compelling idea. On the other hand, it smacks of the days when some manufacturers tried to label distributors as mere "drayage houses."

The truth is, foodservice manufacturers want and need their distributors to be more than drayage houses. For one thing, manufacturers aren't interested in setting up direct billing and collecting relationships with every operator who buys their products. For another, operators aren't interested in receiving and paying invoices from every manufacturer whose products they use. What's more, distributors do offer some level of marketing and sales support. So the notion of "selling direct to operators" and just paying a distributor to store and ship product isn't feasible.

Now, for the distributor's point of view. Reality dictates that distributors generally cannot make enough "margin on the sell" to be profitable. A significant amount of income from manufacturers is required to keep most broadline distributors in business. But it's no secret that manufacturers resent the way distributors position these payments as "marketing programs" while offering little marketing value beyond "keeping the business."

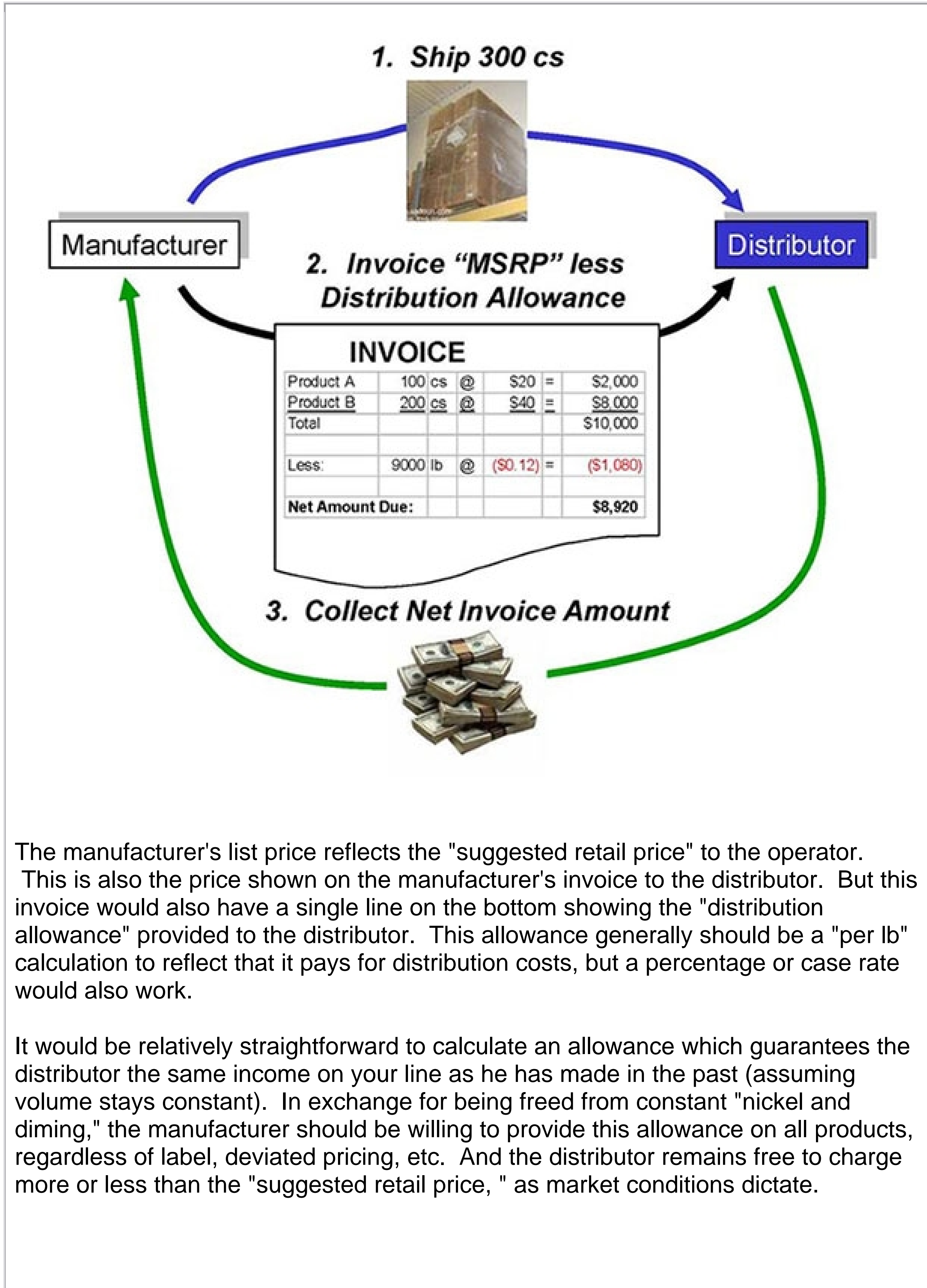
So it makes me wonder if there isn't a better way for funds to exchange hands between manufacturers and distributors. A way that:

-recognizes and rewards the value that distributors provide to manufacturers

-frees everyone from the charade of "distributor marketing programs"

-provides predictable income for the distributor and predictable costs for the manufacturer

And here's the idea:



INVOICE

Product A	100	cs	@	$20	=	$2,000
Product B	200	cs	@	$40	=	$8,000
Total						$10,000
Less:	9000	lb	@	($0.12)	=	($1,080)
Net Amount Due:						**$8,920**

The manufacturer's list price reflects the "suggested retail price" to the operator. This is also the price shown on the manufacturer's invoice to the distributor. But this invoice would also have a single line on the bottom showing the "distribution allowance" provided to the distributor. This allowance generally should be a "per lb" calculation to reflect that it pays for distribution costs, but a percentage or case rate would also work.

It would be relatively straightforward to calculate an allowance which guarantees the distributor the same income on your line as he has made in the past (assuming volume stays constant). In exchange for being freed from constant "nickel and diming," the manufacturer should be willing to provide this allowance on all products, regardless of label, deviated pricing, etc. And the distributor remains free to charge more or less than the "suggested retail price, " as market conditions dictate.

I'd love to hear from my manufacturer and distributor readers regarding why this would or would not work. And better yet, if we can find a manufacturer and distributor who are willing to test the concept, I'll help you put it together at no charge.

How else will we ever learn to do things better?

"No Simple Answers"

Perhaps the most vexing question about redistribution is whether to put chain account or deviated-priced business through a redistributor. There seems to be an ever-increasing use of billback pricing to allow manufacturers to gain chain business on nationally-branded product sold through broadline distributors. This, coupled with increasing supply chain costs, has many manufacturers scrambling to figure out the ramifications of serving this business through redi.

The manufacturer's knee-jerk reaction is usually "my margins are too tight on this business to also pay a redi allowance!"

The redistributor's reaction is usually "your redi allowance reflects your cost avoidance when we handle the business - that doesn't change with the product label or the product price!"

Years of wrestling with this issue have led me to the conclusion that there is some truth in both statements, and that there is no single right or wrong answer to this question. I've found that each situation requires a careful comparison of direct-vs.-redi service, which takes into account:

-the manufacturer's revenue under both scenarios

-cost-to-serve direct vs. redi allowance

-distributor billback amount

-other factors including the distributor's order size and the special-priced volume in relation to the distributor's total order

Wouldn't it be nice to have a model which would compare all of the relevant data and spit out the right answer?

I'm working on one right now. When finished, it will allow everyone to compare the financial result of "direct vs. redi" service for the manufacturer, redistributor, distributor, and chain operator.

It's not ready yet, and that's where you come in.

I'm offering my readers the opportunity to look at the model and play with it using your actual situations. If you're interested, just **click here**and I'll send you the worksheet with instructions. *All I ask in return is that you send me some feedback regarding what you like and what's still needed to make it an effective tool.*

Together, I'm betting we can come up with a consistent way of analyzing these questions and helping all parties reach the right conclusions!

Comments? Questions? Further Thoughts? Criticism? All are welcome at **Tell Dave**

My Website: **Franklin FS Solutions**