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IN THIS ISSUE:

"Other Choices" - looks into alternatives to merely passing your cost increases down the line

"Re-thinking Price Bracket Structure" - suggests new ways of segmenting your business, and implementing practices and policies that reflect true cost-to-serve

Thanks for reading, and as always, let me know what you think. Please be sure to tell me right away if you have any problems with the new format - thanks!

Dave

"Other Choices"

Last month, we established that we're in uncharted waters when it comes to:

- commodity costs
- internal pressure to increase prices
- external pressure NOT to increase prices

The foodservice press and the popular press are full of stories about how tough the economy is, and how foodservice and retail grocery companies are dealing with inflationary pressures.

It could well be that the days of jamming your cost increases down the line to the next guy are over, at least for now. Certainly, that's still going on, but there are examples of companies throughout the supply chain who are taking a more creative approach to dealing with costs.

For example:

A leading poultry processor is closing a plant and 6 distribution centers. This move "is likely the first of many similar moves that will be made by poultry processors this year, as producers attempt to curtail supply to improve industry fundamentals." An analyst "described the move as positive for the industry, and said he expected similar cuts at other processors to total about 3% of industry capacity by summer, based on historical trends."

The entire article can be found by clicking here.

As long as there is overcapacity in your category, the opportunity to take price increases will be stifled by fear of "the other guys" who are willing to take your business for a few pennies less. Taking out capacity is a painful move, and no one earns a bonus for making the overall industry better. But getting your capacity in line with real demand allows a supplier to peel off "overhead-covering" business and focus on more profitable customers.

In their February market report, Sysco executives discussed how their MA's are helping their operator customers deal with inflation. Their strategies include:

- Encouraging operators to change their menus, because "sometimes you can't outrun this stuff" (cost increases)
- Reassuring operators that menu price increases are sometimes necessary. "Most of them are scared and need the encouragement to tell them it's OK to take pricing. In most cases they are under priced on things."
- Using Business Reviews to point out opportunities to improve decor, service, and all of the intangibles that can boost the operator's value offering and support higher menu prices.

And finally, chain operators such as Applebee's are going to revamp their menus so they can continue to operate profitably while maintaining target price points. (click here for article) This suggests that the window of opportunity (which is usually locked shut for most of the year) is wide open for manufacturers who can bring lower-cost solutions to chain headquarters.

So in recognition of these tough times, here is some free advice:

1. Do what you have to do for the long-term good of your business. At some point (and a lot of you are at or beyond this point), you've got to pass your costs along.
2. Surround your price increase communication with ideas that will soften the economic impact for your downstream customers. Point out the options of trading down to lower-cost products, reducing portion sizes, and updating menu offerings.
3. Accept that you must lose some volume in order to make your price increase stick.

When and if the days of consumer confidence and cheap, stable commodities return, our industry should get growing again. Those companies who can figure out new ways to deal with high costs and low demand during the hard times will be around to enjoy them.

"Re-thinking Price Bracket Structure"

Over the years, I've helped a lot of manufacturers get their arms around their cost to serve various order sizes. Often, this work is to support development of a new price bracket structure, and/or to provide backup information for a financially sound redistribution program.

Traditionally, foodservice manufacturers have established price brackets which approximate the utilization of trailer capacity, and attempted to use price premiums which reflect the additional costs of managing and shipping small orders. At the very least, the price premiums should reflect the high freight cost associated with shipping small orders.

But when we look below the surface, we see that there is a lot more than transportation driving the cost-to-serve equation.

For example, the time spent picking cases proves to be a significant driver of warehousing costs, vs. loading full pallets on trucks. But this cost is buried so deep in your P&L (especially if you use 3d party warehousing providers) that it can't be found with both hands, a shovel and a flashlight! It takes a lot of work to break out this cost and allocate it to individual order types.

Likewise, the time spent in your Customer Service department keying in faxed orders, reconciling prices and communicating with customers is much greater for manual orders than for EDI orders. Again, it is possible to break down the time and cost for both order types, and assign them accordingly; but few if any manufacturers do it.

So it begs a few questions:

- Should price brackets be based on more than freight premiums and a "best guess" at order management costs?
- Should manufacturers take another look at order policies, and establish new allowances for customers who provide easy-to-process, easy-to-fill orders?
- Should target customers for redistributor service be defined by more than just order size?

To me, the answers are obvious. Properly designed, your price bracket structure will provide incentives for your customers to order the way you want them to, or pay for the inefficiencies they force on you. And with costs being what they are, maybe it’s time to take a new approach to your prices and policies.