FOODSERVICE MARKETING INSIGHTS

The Online Newsletter for Foodservice Marketing Professionals
From Franklin Foodservice Solutions and Dave DeWalt

Sent Monthly to Over 550 Subscribers Worldwide

Volume 6, Issue 2
February, 2008

IN THIS ISSUE:

"Discontent is the first step in the progress of a man or a nation."
-Oscar Wilde

"One At a Time"

I just got back from the Foodservice Sales and Marketing Association's Top2Top Conference (see top2toponline.com). In deference to that organization, I'm not going to share the key messages with those who did not attend.

Suffice to say, the overall feeling is that it was the most direct and specific public discussion of issues impacting the manufacturer/agency relationship in a long time – maybe ever!

I know that to be true because I had both manufacturers AND agencies tell me that some of the things said from the podium and in the workshops made them uncomfortable, and for a few, even angry. (Had there been distributors in the room, they'd have been squirming as well!)

And that's a really good thing.

Foodservice manufacturers have never had it so rough – commodity costs, fuel costs, a stagnant market, more powerful customers, too much capacity, and increasing trade demands are just some of the issues they're fighting.

And agencies face most of the same pressures, in addition to declining revenues.

Until now, both sides have seemed content to plug away at their businesses, each complaining about the misdeeds of the other. But rarely in mixed company.

The agency people are hard-wired to keep the peace among all of their manufacturers, distributors, and operators, without regard to increasing demands and shrinking resources.

The manufacturer people, as always, are in a headlong rush to bring in this Quarter's numbers at all costs, including knowingly weakening the long-term relationships with their agencies.

But now that the rug's been lifted, we can all see what we've been sweeping under there, and it's not pretty!

Will it matter?

Yes, I think that many manufacturers and agencies will invent new and better ways to work together, provided:

-they understand and acknowledge those places where their goals are not aligned, and never will be

-they speak to distributors with one voice about how agency people will and will not spend their time

-they have the courage to let go of the old attitudes and practices, even as they adopt new ways of doing business

It's not going to happen in one fell swoop; rather, it will be the result of progressive manufacturers and agencies working together on one problem at a time.

Who's ready?

"Price Increase, Anyone?"

Commodity costs are through the roof, erasing margins for the dry mix company, the frozen bakery, the poultry processor, and virtually every food manufacturer in between. Energy prices continue to be at historic highs, further jamming the manufacturer, distributor, broker agency, and operator.

Apparently, government policies regarding energy and ethanol production are partly to blame for both problems, although no one seems to know if or how the government should act to help.

But while the impact of $100/barrel oil is felt at gas pumps and on heating bills every day, there is something going on which has pretty much insulated consumers from food price inflation, at least so far.

It seems that distributors are pushing back with unprecedented fervor on manufacturer attempts to raise prices. They are insisting on "seeing the books" and using other tactics to forestall or reverse planned increases from their suppliers. Doubtless the distributors are driven by fear of raising prices to their operator customers, because the operators are loathe to increase menu prices.

An article about the recent Darden Restaurants investor conference call spelled it out:

"In the short term, however, Darden faces what Otis characterized as a "difficult consumer environment" that "may get worse." Otis, whose company operates more than 1,700 restaurants, said diners have become "very budget conscious" during the past several months. "They are seeing more pressure on their discretionary income," he said.

As a result, some households are either cutting back on the number of times they eat out or spending less when they do go out, he said. The behavior is having more impact at Red Lobster and LongHorn, where the average check is a bit higher than Olive Garden, Otis said.

Darden also faces the challenge of managing escalating food costs and other expenses, such as higher utility bills and rising wages. During the conference call, executives spent a lot of time detailing how Darden's extensive and sophisticated supply chain helps buffer the company against shifting market conditions.

Otis said Darden is wary of raising menu prices to make up for the company's rising costs of doing business, particularly at Olive Garden where consumers are drawn to the restaurant's "value-proposition." "We are very careful about pricing; we will continue to be careful about it," he said."

One might presume that this reflects the foodservice industry's desperate attempt to hang on to that 50% share of stomach vs. retail grocery. But I understand that things are just as tough on the grocery side, with manufacturers having as much difficulty pushing cost increases through that channel as they are in foodservice.

So I wonder what it is about our business and these times that lets oil cost increases go right through to my wallet, while the cost of a night out or a bag of groceries remains relatively unchanged. Is it just a matter of time, or is there something else at work here?

And the next time one of your non-industry friends tells you "you're in a great business – people always gotta eat!". . . try not to punch him in the nose!

Foodservice Marketing Insights is intended to share ideas and stimulate your thinking about current topics affecting your business. Your comments, criticisms, ideas and questions are all welcome, addressed to:
dave@franklin-foodservice.com