FOODSERVICE MARKETING INSIGHTS

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

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REDISTRIBUTION UPDATE:
"What's the Frequency, Kenneth?"

I've had the opportunity to look at a lot of customer shipment data lately…a LOT of data!

In working with several foodservice manufacturers, we've been breaking out their sales volume and freight costs by order size. It's a great way to understand your true cost to serve various order sizes, as a means of developing bracket prices, redistribution strategies and related programs.

What's interesting is that when I ask my clients how frequently their customers order, I get a lot of blank stares from Sales, Marketing, and even Customer Service people. And when I dig into it, I usually find that there is little rhyme or reason to customer order patterns.

It's not unusual to compare two customers who buy similar volume annually, only to find that one places small orders every week, while the other orders 4 times as much every month.

Now assuming they are both offered the same bracket price list, it would appear that the first customer values turns over product cost, while the second prefers to get the best price and accept slower turns.

But it raises a several interesting questions, including:

-what can a manufacturer do (in addition to bracket pricing) to encourage customers to place larger, less-frequent orders?

-when manufacturers guarantee fixed Truckload pricing to a large customer, what are the chances that customer switches to a small, high-turn order pattern without the manufacturer catching on?

-do distributors order pretty much the same mix of products every time, or are they likely to change this mix every order based on sku velocity or some other variable?

-when a manufacturer and his redistributor agree that the target customer is one who orders (for example) “5,000 lb or less,” does that mean per week? Per month? Per year?

I have heard skeptical manufacturers complain that redistributors can turn large-order direct customers into small-order redi customers. Even if the volume stays the same, the fear is that the manufacturer’s cost-to-serve goes up. But concrete examples are few and far between.

It takes a little work, but a few hours of analysis will shed a lot of light on how frequently your customers order. And once you know the frequency, it will begin to crystallize your redistribution and pricing strategies.

Franklin Foodservice Solutions has been helping manufacturers get more out of their redistribution programs since 1996. Visit our website **(www.franklin-foodservice.com)** to read and download any of our newsletters, white papers, and articles about redistribution.

“The real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it.”
-Adam Smith; The Wealth of Nations, I., 1776

THIS MONTH’S FEATURE ARTICLE:
“Regain Pricing Control”

Recently, I read an excellent article with the above title in the “MDM Advisor” newsletter (http://www.mdm.com/subscribe/advisor.html)
The author quotes extensively from Jim Saunders of Pricing Solutions Ltd. in Toronto (www.pricingsolutions.com)

While the article was addressed to wholesale distributors, the message applies equally to foodservice manufacturers.

To wit,

"If a sales force is out negotiating deals, there's very little control. They come back and say 'I've got a deal at $90. I know our price is $100, but if we don't give then $90 we won't get the deal.' And everyone feels as if they are being held for ransom."

Saunders says that if your company lacks a coherent price strategy "you don't have the backbone to convince your sales force to tell the customer this is our price, and here's why. If you can't say here's why, the salesperson won't have the backbone to stand up to the customer when they are asking for a discount."

MY TAKE – it's safe to say that every one of my clients feels they have a premium product. But many cannot articulate what makes it unique, different, and better than the competition. Still, the Headquarters folks often lament that sales people (including brokers and DSR's) "only sell on price." Can you blame them?

Saunders advocates dealing with discount questions "up front," before the Sales force goes out to sell a particular product line and "before you are confronted with a discount." That way, the Sales person can say "we don't discount, but you can make some choices to reduce your cost if that's important to you."

MY TAKE - how much time do you waste in fielding discount requests, analyzing the opportunity, counter-offering, internal negotiations, etc.? Wouldn't it be better to have a clear strategy and policy and enforce it consistently?

Jim reminds suppliers to really understand your value vs. your competition, and what types of customers you should be targeting. "If (your product) is what your customer wants, they will pay for it."

MY TAKE – this is the essence of marketing, and too few foodservice manufacturers invest in it. Truth be told, we seem to prefer to slug it out on price for me-too commodity products.

"As with any shift in strategy, the biggest obstacle may be employee reaction. A change in pricing strategy especially affects salespeople who may be concerned about compensation."

MY TAKE – I have seen this over and over; price increases cause more resistance and carping from Sales than customers. We must recognize that Sales has relationship investments which may be put at risk by a price increase, and broker agencies have compensation concerns. But isn't it safe to say that most price increases cause less disruption and volume risk than was feared?

The bottom line is that pricing is one of the most effective levers for improving profitability, but most companies do not have that lever firmly under control.

AND FINALLY, A WORD ABOUT "GETTING SHANGHAIED"

Standing in the taxi line at McCormick after a long day at the NRA show, all I wanted to do was put my feet up and enjoy a cool beverage. A gentleman (I'll call him Joe) read my name tag and introduced himself as a long-time subscriber to Foodservice Marketing Insights. Joe's company is one of the most innovative, progressive, and successful foodservice manufacturers in the business.

After saying some nice things about the newsletter, Joe explained that he was now receiving it in Shanghai, where he had moved to oversee his company's booming Asian operations.

He added "you write a lot about distribution – you should see how we do it back home!" Joe went on to describe a flourishing and sophisticated foodservice market which is typically serviced "from the back of a station wagon." He wondered what it would take to break down total distribution costs by order size in that environment. He seems to be thoroughly enjoying his work, in spite of (or because of) the monumental challenges it presents.

Joe told me he would love to send some pictures to share with other FSMI readers. I told him I'd been thinking about changing the newsletter to the html format, and his offer would give me a good reason to do so.

So "Joe," thanks for introducing yourself, and keep up the good work. I'll give you a shout when we're ready for the pictures.

And for all of us who need new sources of growth, they just may provide a glimpse of the future.

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

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