Foodservice Marketing Insights

presented by Franklin Foodservice Solutions

YOUR FREE MONTHLY NEWSLETTER

Sent Monthly to Over 650 Subscribers Worldwide

Volume 7, Issue 6

June, 2009

IN THIS ISSUE:

"30 Days to a Slimmer Product Line" - Describes my process for Product Line Optimization, and seeks manufacturers who want to solve their "SKU Rationalization" problems in 30 days

"Rethinking Distributor Relationships" - A reminder that manufacturers and broker agencies who choose to de-emphasize distributor relationships do so at their own peril

"Planning vs. Reacting" - Urges manufacturers to plan for the times when their Plans are wrong

Good morning! I hope your summer is going well.

This month, I'd like to tell you about the progress I'm making in perfecting an end-to-end process for Product Line Optimization. My goal is to turn all of the Excel templates I use into a push-button program for "do-it-yourselfers" who want to try a proven approach for tackling their bloated product lines. We're not there yet, but we DO have a process for getting you successful "SKU Rationalization" results in 30 days. If you're interested in learning more about my approach, I invite you to contact me to receive a free outline and ask any questions.

I also heard a compelling comment from a foodservice broker, which got me to thinking and led to this month's second commentary.

Finally, a few conversations about forecast accuracy and inventory management led me to dig out a five-year-old article. It's as relevant today as it was then, and might still be 50 years from now.

Thanks for reading, and as always, let me know what you think. **Tell Dave**

Dave

"If you don't like change, wait 'til you try irrelevance." - Unknown

---

"30 Days to a Slimmer Product Line"

It seems that every manufacturer I speak with agrees that they have too many products in their line. And in this economy, eliminating fat in all areas is a sound strategy.

But as we've written in the past, manufacturers often have a hard time making these cuts because:

1. Sales and Marketing continually add new products to capture new sales opportunities

2. The pain of a bloated product line is felt in Operations and Supply Chain, but Marketing holds the responsibility for trimming the product offering (and they've got better things to do)

3. It's easy to see the lost revenue when products are dropped, but the financial benefits are practically invisible

As a result, manufacturers who undertake SKU Rationalization Projects usually spend a lot of time spinning their wheels, only to end up with a solution that satisfies no one.

Experience has shown that it definitely helps when these projects are led by someone who doesn't "have a horse in the race," and whose only motivation is helping to get to the best solution in a timely manner. And it helps to have a proven end-to-end process which quantifies the risks <u>and</u> the benefits, and involves both financial data and marketplace input.

What's it take to get from here to there?

-A way to quantify the cost of managing too many products (we've got it)

-A way to bring all of the stakeholders together and help them see the product line from several perspectives, so they can decide which products require an Action Plan (we know how to do that)

-A structured process for working through each of the Action Plan products, and quickly reaching a shared decision (yep)

-A way to predict the P&L impact of product line decisions before pulling the trigger (we've got that, too)

Finally, a committed manufacturer can work through this process crisply, when all of the decision-makers are dealing with the same information. Rather than getting bogged down in endless debate, the project team can move from kickoff to customer communication in about 30 days.

If you'd like to learn more, **click here**to send me a quick Email. I'll send you my "Getting SKU Rationalization Right" paper, and follow up to answer any questions.

"It seems essential, in relationships and all tasks, that we concentrate only on what is most significant and important." - Soren Kierkegaard

---

"Re-thinking Distributor Relationships"

I was hanging out with some foodservice brokers last week, talking about how they work with their manufacturer principals. We were exploring the relationship between "what manufacturers want them to do" and "what they do that really moves the needle."

One of them stopped me in my tracks when he said "sometimes manufacturers forget how important it is for us to maintain strong relationships with distributors."

I responded, "how can that be, when all I've been hearing lately is how relationships don't count for anything anymore, and it's all about trade dollars?"

In the ensuing discussion, one of the brokers said, "when we have strong relationships, we can make the trade dollars work for the manufacturer, and make sure we get strong support from the distributor. When we don't have strong relationships, that's when the trade dollars disappear into the black hole!"

I had never thought of it quite this way before, but it makes sense.

It's ironic, though, that as distributor trade spending spiraled upward in the last decade, many manufacturers (and perhaps some brokers?) responded by pulling back from the distributors, and shifting their focus to operators. Were they in fact "kissing their trade dollars goodbye" as they rushed out to build volume via operator pull? While it's good strategy to put significant resources against key operator segments, it seems that manufacturers who turn their backs on distributor relationships eventually learn three lessons:

1. In addition to manufacturers' love and attention, large operators don't mind demanding a few trade dollars, too.

2. Broker Agencies with 40 or more lines at stake can't afford to buy into a few manufacturers' mandates to pull resources away from distributors.

3. The distributor still wields a lot of influence over the operator's purchase decision, even when (or especially when) a manufacturer openly neglects the distributor relationship.

So as always, manufacturers and their broker agencies are left with one foot in the boat and the other on the dock as they struggle to find the right balance between supporting operators and supporting distributors. And with limited time and money to spread around, the stakes are high. The manufacturers who describe themselves as "Operator-focused, but Distributor-friendly" are probably on the right track. And those who lean too far one way or the other are in danger of an unpleasant dunking!

"Planning vs. Reacting" (Reprinted from April 2005)

A lot is made of the importance of planning, especially among the large, publicly held companies I work with. Wall Street's insatiable appetite for predictions, projections, and prognostications has spawned countless careers for those with a facility for churning the numbers to create forecasts. More than a few CEO's and Foodservice VP's have become seduced by the endless cycle of creating annual plans, tracking performance against those plans, reporting out, and revising the outlook for the remaining year. Others hate it, but can't seem to break away long enough to effectively run their businesses.

For 6 months, I had the misfortune of working for a boss who seemed to be transfixed by the process. Business was not good at the time. Two days each week, he would herd the Marketing and Sales people into a conference room, where we'd spend hours analyzing "actual vs. plan" for categories, channels, and products. His dream was to get us to produce extremely accurate forecasts for the coming months.

We felt as if we were in the cockpit of a plane that was losing altitude, all of us reading the instruments and scribbling notes, trying to predict the moment of impact. No one had time to reach over to pull up on the stick!

The fascination with planning is matched by a general disdain for "reacting." We're told to "be proactive" and "get out in front of the business." Great concepts, but they seem to ignore the fact that never in the history of foodservice has a week, let alone a fiscal year, unfolded as planned!
Take sales forecasting, the bane of every Production Planner. Today, despite terrific improvements in technology and sophistication, "improving forecast accuracy" remains high on the wish list of most foodservice manufacturers. "Poor forecasting" usually is fingered as the culprit whenever a company experiences service problems.

But the reality of the foodservice market was summed up during an interview with a Purchasing Manager for a major hotel chain. He said "our Banquet Managers book wedding receptions and other large functions 6 months to a year in advance, but they don't tell the distributor they need 800 servings of chocolate cake until 3 days ahead!" His point, and mine, is that there is a practical limit to anyone's ability to forecast demand in foodservice. And given human nature, no amount of technology or EFR initiatives is going to make much of a difference.

At the other end of the spectrum from the corporations and their planning are the smaller, privately-held companies who place a premium on responding (a better word than "reacting") to the marketplace. They seem to recognize that the foodservice market is a volatile place, and that plans are not the same as guarantees. I've worked for and with companies where the plant and the general offices are all under one roof, and where orders are reviewed every day so the production schedule can be adjusted on the spot. These companies are justifiably proud of their ability to respond to reality, not plans, and their service levels reflect this.

So what are you to do if you run a large, multi-location foodservice business for a public corporation?

• Do what you need to do to satisfy the "plan junkies," but make sure you are great at responding when things don't go as planned (because they won't). Distributors and operators don't give their business to the suppliers who have the best plans.

• Focus your planning efforts not on the numbers, but on the actions that will produce the numbers. The top NFL teams probably don't spend time predicting game scores for the season, or practice putting 3's and 7's on the scoreboard. They certainly do put together great game plans, and practice executing them flawlessly. Oh, and they're also great at adjusting to what the opposition is doing during the game.

• Stop beating your head against the wall trying to get better at forecasting, and figure out a way to be more flexible in responding to real demand. The forecasters in Sales and Marketing can't be let completely off the hook, but it's probably time for a healthy discussion about the reality of the marketplace and what it takes to compete successfully.

Planning is important, and it's necessary to run a business. But when the planning and reporting process sucks resources away from responding to the marketplace, you're asking for trouble.

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

My Website: **Franklin FS Solutions**