FOODSERVICE MARKETING INSIGHTS

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

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REDISTRIBUTION UPDATE:
"Read Any Good Books Lately?"

The Industry Guide to Redistribution is about to go to press.

Written by me and published by Technomic Information Services, this all-inclusive manual covers nuts-and-bolts information to help you analyze costs and evaluate existing or future programs, and provides strategic insights on the key redistribution issues facing manufacturers and how to address them.

Even if you currently participate in a redistribution program, you'll gain fresh perspectives that can enhance your results. Take advantage of this opportunity to get the upper hand on your redistribution strategy by tapping into the expert insights presented in the Industry Guide to Redistribution, including:

1. The Case for Redistribution
2. Profiles of Key Redistributors
3. The Economics of Redistribution (for manufacturers, distributors, and redistributors)
4. Building an Effective Redistribution Program
5. Managing the Redistributor Customer Mix
6. Managing the Redistributor Product Mix
7. Joint Sales and Marketing Opportunities
8. Joint Cost-Reduction Opportunities
9. Potential Pitfalls to Avoid
10. Advanced Program Structures
11. Getting the Most From Your Redistribution Program

As a loyal subscriber to Foodservice Marketing Insights, you will receive a $100 discount when you order from the Technomic Information Services website:

https://technomic.securelook.com/cgi-bin/store/commerce.cgi?page=redistribution.html&cart_id=371922_29152

Just before you click to complete your order, you'll be asked "How Did You Hear About Us?" Fill in "Dave DeWalt," "Franklin Foodservice Solutions," or "Foodservice Marketing Insights," and you'll automatically receive the special price.

And if you'd like more information before making up your mind, just drop me a line and I'll be happy to fill you in. Good reading!

Franklin Foodservice Solutions has been helping manufacturers get more from their redistribution programs since 1996. E-Mail us (dave@franklin-foodservice.com) to receive a copy of our article "Does Your Redistribution Program Address These Realities?"

"The failure to read good books both enfeebles the vision and strengthens our most fatal tendency--the belief that the here and now is all there is."

-Allan Bloom

THIS MONTH'S FEATURE ARTICLE:
"Are We Ready for Category Management?"

Today I yield this space to Karen Ribler, who just published an excellent commentary in IDAccess Online (http://www.myidaccess.com/)

While I've heard rumblings about Category Management in foodservice, I personally know of only a few major manufacturers and one major distributor who are actively pursuing it. Call it what you will, the notion of paring away duplicate and unnecessary items in order to focus on true winners is right on the money.

And while Karen says some nice things about my approach to Product Line Optimization and upcoming software, I think you'll be most interested in her comments about the manufacturer's role in getting the process started. Read on:

LOOKING BACK ON 2005 AND FORWARD TO 2006 – ARE WE READY FOR CATEGORY MANAGEMENT?

By Karen J. Ribler

The year 2005 was heralded as the year for foodservice category management implementation. Indeed, some momentum was achieved last year. Using the EFR (Efficient Foodservice Response) definition as a tactic, many manufacturers showed interest in facilitating the process on behalf of their customers and, as a result, a degree of progress was made by a handful of foodservice distributors.

In observation, to date, much of the supplier motivation for participating in the process appeared to be turf protection and the approach – although labeled category management – appeared to apply the same old sales tactics based on greater insight, which has facilitated old-fashioned SKU rationalization.
Not trying to be harsh, we are not reporting that the effort bore no quantifiable fruit. The IFMA/IFDA President's conference dedicated a whole segment, spotlighting the measurable advancement achieved through the implementation of software as well as the specific success achieved by one foodservice distributor's DC that implemented the software to support its category management process with great results.

Furthermore, we can easily identify a handful of foodservice distributor organizations that "got it," that is, truly embraced what category management could do on their behalf and took control of the process and thus benefited from greater supplier/distributor communication, a more focused salesforce and greater customer communication. Plus, other foodservice distributors that wished to embrace category management tenets did seek suppler partnerships, began to have more forthright communication and did pursue the objectives promised by category management implementation with some impressive results.

IDEOLOGICAL DISCONNECT

Nonetheless, something was missing. The EFR definition casting category management as a distributor tool has been taken too literally. There exists an ideological disconnect "upstream," within the supplier's own product assortment. Assessing category management as a great process for their customers to use, many manufacturers have failed to gauge or act on the strategic benefit this process might have for optimizing their own operations.

This lack of upstream housecleaning has always been a speed bump to the supply chain's ability to fully benefit from the efficiencies that category management has to offer. The benefits enumerated by EFR for distributor use hold true for the manufacturer. These motivational factors for implementing the category management process include:

-Achieving lowest acquisition costs
-Reducing inventory
-Improving service levels
-Attracting targeted customer segments
-Enhancing supply chain relationships

In teaching category management to foodservice manufacturers, we have always maintained that to be an effective category management partner, you have to have done your homework within your own operation.

Sitting in on a recent webcast sponsored by Instill, featuring Dave DeWalt, president of Franklin Foodservice Solutions, it was evident that a solution to enable suppliers to do their homework might be on the horizon. Although, DeWalt did not label the process category management as such, he spoke to this process and indicated that his organization was developing software to support it.

Based on his 25 years in the business, DeWalt addressed a challenge manufacturers face on an on-going basis – having SKUs in the supply chain that are performing below par and personnel with responsibilities/objectives that potentially predispose the organization to manufacture, inventory and advance non-performing items. This challenge presents itself on the manufacturer's P&L and is felt in the marketplace.

DeWalt's theme centered on the need for manufacturers to optimize their product assortment. He noted that "sales and marketing do not feel the pain associated with keeping SKUs around or adding them." He noted, "they do not perceive too many products as a problem or appraise the benefits of dropping products."

DON'T ROCK THE BOAT
Sales and marketing are rewarded for their efforts in not rocking the customer boat and for their efforts to obtain greater sales, regardless if the sales are ROI contributors to their organization. Given this dynamic, DeWalt observed "unless you have capacity constraints, it is hard to see the financial case to achieve product line optimization."

In setting the stage for the rationale behind the manufacturer's need to analyze its own internal SKU product performance, DeWalt discussed from strictly a supplier's perspective the long term benefits of embracing this process, which include:

-Reducing inventory and the carrying costs associated with inventory, (both raw materials and finished goods)
-Reducing change-overs
-Reducing short runs
-Reducing waste of scarce resources
-Identifying star performers
-Sharpening the sales focus on ROI contributors
-Opening slots for star performers
-The ability to plan, as well as provide reward systems that support the organization's fiscal growth

The process put forth by DeWalt paralleled the internal category management process the community has acknowledged for distributors. According to DeWalt's observations, the key to implementing the process with success is based on marrying quantitative financial, item movement, and customer data with qualitative input from a representation of players, i.e. marketing, sales, finance, operations and IS. DeWalt placed team leadership for the manufacturer's internal efforts in marketing's hands and suggested that all parties "deal" with the same information.

Acknowledging the hard work of gaining visibility regarding product performance, DeWalt suggests that suppliers begin their initiative by focusing on problem products not the entire operation. Like the internal distributor category management process, he also affirms the importance of having executive commitment and being ready to take action once agreement on the plan has been obtained.

DeWalt notes the first step, when initiating the process, is to identify candidate products that will make a difference to the organization's bottom line. He notes the company financials using volume and gross profit or variable margin analysis will highlight potential ROI killers and meek performers. He states that input from operations and logistics should be sought, requesting an enumeration of products that they dislike and why. The analysis should also take into account the identification of redundancies within the line, how products are being used by customers and the possible opportunity for product substitutions.

The data collection should result in a list noting the SKU, product description, and the rationalization behind whether the item is to kept, tolerated, dropped with a substitution or dropped and sacrificed. The plan, including all action steps, should be documented noting all parties that will be effected and the steps that they are to take to make a smooth transition. All parties affected should be informed of the timeline, rationale behind the timeline and actions to be taken. This includes documenting and communicating raw materials on hand, finished goods on hand, cut off dates for additional finished goods, customers to be affected and support available to communicate the organization's actions to those impacted.

The comments presented by DeWalt were right on the mark, supporting manufacturers' needs to gain visibility to their most profitable items as well as their costly cousins and take action against this information.

From our perspective, the process he described is the first step for manufacturers in truly moving ahead with foodservice category management, which is a supply chain initiative. Maybe software is the answer…between the Technomic software to support foodservice distributors' category management efforts and the forthcoming DeWalt software to automate internal SKU optimization and planning for manufacturers… maybe 2006 will be the pivotal year for foodservice category management implementation. Certainly the information will be accessible, so are we ready for category management?

To download a formatted copy of this article, please click on:
http://www.myidaccess.com/index.php?option=com_content&task=view&id=62479&Itemid=0

AND FINALLY, A WORD ABOUT "HOT POTATOES"

If ever there was a hot potato being flung around our industry, it would be "fuel surcharges."

I saw a major manufacturer attempt to add fuel surcharges to their invoices back in 2004, when we THOUGHT we were seeing high prices. Many distributors have added fuel surcharges to their operator invoices. I've seen redistributors push fuel surcharges "upstream" to their suppliers. A few weeks ago, a restaurant in the northeast received national attention by adding a 5% fuel surcharge to their customer bills! What's going on here?

On the surface, fuel surcharges appear to be a valid tool to recoup what is expected to be a temporary cost increase. The idea is to track market prices for diesel fuel against an index, and use a formula to convert the premium cost to a line item charge, paid by the downstream customer. But it doesn't seem to be working out all that well.

First of all, I'm not sure why fuel costs are treated any differently than labor, corrugated, or the commodities that go into value-added products. You make assumptions about costs, set your prices, and ride with the ups and downs until it becomes time for a general price increase.

Second, by calling out a new cost on a separate invoice line, the seller is raising a target for an easy deduction by the buyer. Even if he pays it, the customer is often resentful and suspicious of the supplier's motives.

That brings up the issue of how the charge is calculated. Getting into a debate over this with your customer is probably not going to be a pleasant experience, no matter how right you may be. And again, calling it out raises the question of how long the surcharge will be in use (and what you're going to do if fuel costs ever go back BELOW your index!)

And third, it seems that manufacturers and distributors who want to offer "delivered pricing" but also tack on a fuel surcharge are trying to have it both ways. Manufacturers who offer "FOB plus freight" pricing have a legitimate tool for reflecting fuel costs changes as necessary. And recent conversations with distributor logistics people tell me that they strongly prefer this structure because it helps them make good decisions about picking up or taking delivery. If you've been considering moving to an "FOB plus Freight" price structure, this would be an excellent time to build in that flexibility.

I may be wrong, but it appears that the combination of creating ill will and realizing spotty success at collecting fuel surcharges makes this a questionable strategy. Even if your intentions are honorable, you may be better off cooking high fuel costs into a general price increase.

If you see it differently or have had success with a fuel surcharge strategy, please let me know – this is new territory and we can all learn together!

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