



## FOODSERVICE MARKETING INSIGHTS

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

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#### **REDISTRIBUTION UPDATE:**

“Customer Size or Order Size?”

A common question is “how should we decide which customers to steer toward redistributors - by customer size or order size?”

Customer Freight Costs and Transaction Costs are ultimately driven by order size, so those customers whose small orders drive high costs should be your targets for conversion to redistribution. To the extent that your small-order customers are also your small-volume customers, selecting targets for redistribution is easy. If you rank your customer list by annual volume, it is a simple matter to establish a “cutoff point” and work to convert those below the cutoff to redistributor service.

The picture gets cloudy, however, when large-volume customers are also small-order customers. For manufacturers who do not enforce order minimums, bracket pricing, or a weekly sailing schedule, this is a very real problem. If you are shipping these customers two or three times per week, you are incurring unnecessarily high costs. The solution is not to shift these customers to redistribution, but to provide incentives for them to build order size and therefore lower your costs.

As always, it comes down to discipline in establishing and enforcing your bracket pricing and ordering policies. Bracket pricing policies and redistributor programs are so tightly linked that poor practices in the former almost always lead to problems with the latter. Conversely, sound practices will help to align customer size with order size, and help you to steer customers toward the appropriate channel decision.

Franklin Foodservice Solutions has been helping manufacturers solve the redistribution puzzle since 1996. E-Mail us ([dave@franklin-foodservice.com](mailto:dave@franklin-foodservice.com)) to receive a copy of our article "Does Your Redistribution Program Address These Realities?"

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"Success is a process, a quality of mind and way of being, an outgoing affirmation of life."

-- Alex Noble, philosopher

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#### **THIS MONTH'S FEATURE ARTICLE:**

"It's a Long Way from List Price to Pocket Price"

Some of the manufacturers I have worked with treat their published price list as a "product list," almost smirking at the notion that these prices would actually show up on a distributor's invoice. It has become common and accepted practice to offer "special pricing" to the majority of customers, including many customers that aren't very special at all. And special invoice pricing is unfortunately just the start.

The McKinsey Quarterly recently re-introduced a concept called "the Pocket Price Waterfall." The idea is to take one customer at a time, and document all of the "takeaways" which ultimately reduce the list price to your "pocket price" (the amount that ends up in the manufacturer's pocket.) Visually, the analysis resembles a waterfall, starting with list price on the top left, and stepping down through each discount to end up at the pocket price on the bottom right.

The article showed how to account for cash discounts, promotions, volume rebates, operator contract pricing, and other price reductions typically offered to foodservice distributors. In addition, McKinsey subtracts the costs of freight, annual marketing programs, and service performance penalties imposed by the distributor. While one could argue that this latter set represents something other than a price reduction, I believe the concept is sound.

The point is that even in a slow-growth economy where raising prices is tough, there are significant opportunities for manufacturers who are willing to work on one customer, one transaction at a time. As the McKinsey article says, “the game of transaction pricing is won or lost in hundreds, sometimes thousands, of individual decisions each day.”

Perhaps instead of working on an increase in list prices, Marketing, Sales and Finance should look at the Pocket Price Waterfall for all of the top customers and products. The results should open up your eyes to the potential for making a long-lasting improvement in your bottom line, without dragging everyone through the rigors of a national price increase that won't stick.

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“Dave is very professional and thorough. He provided solid conclusions and recommendations based on well-researched facts. Dave was comfortable moving forward without having complete direction, and was at ease dealing with a variety of situations involving field sales, brokers, customers, and headquarters executives.” - Sr. Product Manager, Global Food Manufacturer

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### **AND FINALLY, A WORD ABOUT BOOKKEEPERS AND SHOPKEEPERS**

Some time ago, I read that some businesses are run by “Bookkeepers,” and others are run by “Shopkeepers.” (If I ever find out where I read it, I'll provide appropriate attribution...)

The Bookkeeper is the guy with the green eyeshade who pores over the numbers with a flinty eye, ever vigilant for signs that something is amiss. He is intimately familiar with revenues and costs, and where they stand vs. last year and this year's target. And he is convinced that the numbers hold the key to managing his business.

The Shopkeeper hearkens back to early America, where the owner of the local market is also the guy behind the counter. He knows his customers by name, as well as their likes and dislikes. He stands behind the products he offers, because he knows them as intimately as he knows his customers. You'll find no “dogs” on his shelves, because he knows what his customers need and what they want. For the same reason, he decides to bring in new products because he has an accurate picture of how they will fit into his customers' lives. This deep understanding of “the market” is the key to managing his business.

I'm afraid that too many of our foodservice manufacturers are run by Bookkeepers. Part of the problem is that the publicly-held companies are under pressure to achieve quarterly and even monthly numbers, so they rely on the Bookkeepers to make sure they don't stray into any businesses that will hurt the short term results (usually to the point of choking off many new opportunities).

Another part of the problem is that foodservice manufacturers are too far removed from contact with street operators, and that both manufacturers and distributors are removed from contact with consumers. As a result, "market research" has become a poor substitute for truly knowing the customer.

The best "Shopkeeper" businesses I've seen understand that PEOPLE are the best source for understanding and interpreting customers. They insist that not only Marketing people, but R&D, Operations and even Finance people spend a significant amount of time in the field, talking with real operator customers about their products and their businesses. In this way the realities of the marketplace "get into the veins" of the manufacturer's business, and decisions are driven by much richer information than can be found on an Excel spreadsheet.

Whether your company is public or private, large or small, you can benefit from adopting more of the Shopkeeper mentality, and ensuring that the Shopkeepers in your organization have a voice at least as loud as that of the Bookkeepers.

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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](mailto:dave@franklin-foodservice.com)

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