Franklin Foodservice Solutions
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FOODSERVICE MARKETING INSIGHTS

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

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IN THIS ISSUE:

REDISTRIBUTION UPDATE:
"Are Order Management Cost Savings Real?"

When we begin to work with manufacturers on redi programs, we talk about "Cost Avoidance" and "Marketing Value." A solid understanding of these factors provides the basis for developing the redistribution allowance offer, and ensures that all parties understand the economics of the program.

Marketing Value is perhaps easiest to understand, but toughest to quantify. It is the benefit to your distributor (and you) of having all of your products available on a weekly basis, with no minimum and short lead time. This gives the distributor improved inventory management, ability to respond to changes in demand, and higher ROI for your product line. Great customer service is clearly worth something; we work with Marketing, Sales, and Finance to put a dollar figure on it.

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Cost Avoidance has two components: Logistics Costs and Order Management Costs. It takes effort, but we can always come up with a realistic measure of Logistics Cost savings. When business flows through redistribution, the costs of deployment, warehousing, and customer freight are greatly reduced or eliminated. This component is easiest to understand and also relatively easy to quantify.

Order Management cost avoidance is harder to understand, and problematic to quantify. It is the cost of receiving and entering orders, booking transportation, billing, extending credit, collecting accounts receivable, and managing deductions. Most companies peg this cost at anywhere from $75 to $200 per order.

It is not unusual for us to show that 50% of the customers drive 40% of the Order Management activity, while representing only 10% of the volume due to their small order size. When you spread the "per order" cost across your small orders, you get a very high "per pound" cost.

Obviously, outsourcing thousands of orders to a redistributor reduces the workload in Customer Service, Traffic, and Accounts Receivable. But I have yet to see a manufacturer lay off anyone after successfully establishing a redistribution program. This naturally leads to questions about whether Order Management cost savings are "real."

There is certainly something to be said about freeing your Customer Service people from order entry activities, so they can provide a higher level of service to your direct-buying customers. And it seems plausible that over time, human resources get redeployed to where the work is. But manufacturers are making a mistake if they don't make an intentional effort to capture the potential cost savings.

Customer Service and Order Management people are some of the nicest, most dedicated folks in the food business; I'm the last guy who wants to see any of them lose their jobs. But a wise manufacturer will calculate the reduction in order activity offered by redistribution, and figure out a way to capture the benefit.

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

"We must not waste life in devising means. It is better to plan less and do more."
-William Emery Channing

THIS MONTH'S FEATURE ARTICLE:
"New Year's Resolution: Re-establish Price Discipline"

Q: What is the one initiative you can pursue right now that will maximize your bottom line this year?

A: Regain control of your pricing practices.

Recently, I read about a study that compared the bottom-line impact of pulling on the "profit levers" most often employed by corporations. It stated that every:

1% reduction in Inventory = .25% improvement in Operating Profit
1% increase in Unit Sales = 2.8 % improvement in Operating Profit
1% reduction in COGS = 4.9 % improvement in Operating Profit
1% increase in Price = 7.8 % improvement in Operating Profit

Given this evidence and our experience, we believe that Foodservice Manufacturers need to periodically review and tighten up business practices at four levels of price management:

1. Set list prices with an eye toward portion cost and value to the operator and consumer, not just an arbitrary margin over COGS. Also, review your total trade spending by category to see where artificially-high list prices are driving excessive "promotional" spending.
2. Establish appropriate bracket pricing to reflect freight and order management costs. This will provide incentives for distributors to build order size, and ensure that they pay for the cost of small, frequent orders. As we've pointed out before, it is also critical to effective management of your redistributor programs.
3. Enforce bracket pricing and order minimums at the distributor level. It is easy to fall into the trap of price and order size concessions that will erode revenue and margins (see "The Invisible Dollar Leak" in September's Foodservice Marketing Insights)
4. Tune up management of contract pricing and billbacks. Even if you don't have contract-management software, there are very specific processes that should be employed to improve control, beginning with high-quality upfront documentation of programs.

Hey, none of this is groundbreaking information; it's just that the cumulative effect of many small decisions over time will either erode or build up your bottom line. Taking the time to re-establish price discipline will pay off nicely in 2004 and beyond.

"Dave provided terrific advice to the management and board of our company under challenging circumstances, including a management team initially resistant to outside assistance. With a well thought out work plan, demonstrated expertise in marketing, and inclusion of management in planning and execution, Dave produced an outstanding strategy that focused our company on a clear path to growth.

The board and management embraced Dave's recommendations, and their implementation led to growth of 30% in sales and considerably enhanced profitability.

We would like to work with Dave again."
– Owner and Board Member, Mid-sized Foodservice Manufacturer

AND FINALLY, A WORD ABOUT PRIORITIES

The vast majority of Mission Statements I've seen have as their foundation "Creating Shareholder Value." They all include a statement about providing value to Customers, and most go on to say that Employees are the "most valuable resource." What is interesting to me is that of these three constituents, it is in fact the shareholders who are most likely to reward a company's efforts by leaving the fold!

Of course you're also competing to attract and hold customers and good employees, but at least you're in a fair fight against peer companies. When it comes to shareholders, we only have to look back a few years to remember when even the best-performing food company stocks were abandoned in favor of the "dot-coms." With the short-term focus of today's investor, it seems curious to put "creating shareholder value" ahead of "delighting our customers and employees."

Further, I'm intrigued by a line of thought that "the customer doesn't come first – our employees do." The thinking is that if you let unreasonable customers abuse your employees, the employees soon take on a resentful attitude toward all customers. Conversely, if you truly take care of your employees and they feel good about their company, it will carry over into all of their interactions with customers. And after all, it is delighted customers who provide our success, and ultimately create that elusive "shareholder value."

Maybe it's time to rearrange the priorities in our Mission Statements!

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