FOODSERVICE MARKETING INSIGHTS

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

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REDISTRIBUTION UPDATE:
"Pinning Down Those Evasive Cost Offsets"

I've had the opportunity recently to really dig into the issue of accounting for Order Management Cost offsets when volume goes through redistribution. Back in January, we asked the question "Are Order Management Cost Savings Real?" (If you missed it, go to the Back Issues section of the "Free Resources" page on my website). My advice was that while manufacturers may recognize a drop in activity due to an expanded redi program, they will not realize actual cost savings unless there is a parallel reduction in headcount.

It has become clear that the problem goes even deeper than this, due to the limitations of internal accounting systems. For companies that serve multiple channels (i.e., Retail and Deli as well as Foodservice), Order Management costs usually come to the P&L as an allocation, based on volume shipped. As a result, even if the total dollars expended are reduced while volume is held constant, the impact is spread across all of the business (direct and redi-serviced), and therefore is "lost" among all of the numbers.

Similarly, Freight and Warehousing costs appear as a line item on the P&L. If you wisely offload small, high-cost shipments to a redistributor, the savings will be reflected back across the full spectrum of your business, "watering down" the savings and hampering your ability to quantify redi's positive impact on your bottom line.

Worst of all, individual customer profitability analysis can really get muddied by improper accounting for redi costs and cost offsets. Some manufacturers look at customer P&L's for their distributors who are served by redi, and see a distorted picture. If the Logistics and Order Management Costs are fully allocated, AND the cost of the Redi Allowance is factored in, they are double-counting the costs and understating the profitability. To these managers, the redi allowance always looks like a 100% incremental cost.

Look, I'm no accountant (obviously) and this is pretty complex stuff. But with the certain growth of redistribution in the years to come, manufacturers will be wise to invest in development of improved accounting systems that will help them understand what is really going on with their redi business, from both a revenue and cost standpoint. As a matter of fact, the redistributors might consider helping in this endeavor, as a means of strengthening their value propositions.

If you have discovered any tricks to help in this area and are willing to share, please drop me a line; otherwise stay tuned and we'll continue to chip away at this issue together…

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?"

NEXT MONTH: Watch for the first part of my interview with John Tracy of Dot Foods, in which we tackle the tough questions that face manufacturers who use redistribution.

"Failure is the condiment that gives success its flavor."
--Truman Capote

THIS MONTH'S FEATURE ARTICLE:
"Breaking the 'SKU Justification' Cycle"

Last month, I wrote about the "accumulations" that build up in all areas of our businesses, as a result of years of individual decisions (see "Building the Perfect Foodservice Manufacturer").

One of the primary examples is the constant ballooning of product lines, or "SKU Proliferation." Every so often (like when their lift trucks can no longer get down the aisles), companies take on "SKU Rationalization" projects in an effort to trim the fat out of their product portfolios. Usually, these projects end up producing what a friend of mine calls "SKU Justification!" Without fail, someone pops up to argue passionately on behalf of every single product, lobbying for a stay of execution.

Why is it so hard to rationalize a product line?

While everyone can understand that there are costs associated with carrying inventory, production changeovers, forecasting complexity, and loss of focus, we believe that many manufacturers are content to "look the other way," because:

- There is a natural tendency to avoid "giving up volume;" it's easy enough to lose volume without doing it yourself…
- The pain of SKU Proliferation is felt most in Manufacturing and Supply Chain, but the cure rests with Marketing and Sales
- Even though the whole company is aware of the effects of SKU Proliferation, its impact can't be easily measured or isolated on the P&L, so it doesn't get much attention
- Analyzing the problem and developing a solution is time- consuming and cuts across functional lines; it seems to be counter-productive in an environment focused on building volume
- And to the Product Manager, every SKU is like a child in whom he has invested a lot of time, effort, and emotion; it seems better to "nurture them" than to "cut the apron strings."

We have developed a methodology that looks at the product line 4 ways, and identifies "problem products" based on the number of criteria they "hit." Problem products are assigned to one or more Action Plans, designed to quickly get them off of the problem list or permanently get them off of the product list. The Action Plan includes a projected P&L impact based on anticipated changes in volume, revenue, GM, and cost savings.

Because it's a new methodology, I'm offering a chance for readers to "test drive" it at no cost. We'll start with a reasonably-sized category or chunk of your business (50-100 SKU's), run it through my model, and develop an Action Plan (without the P&L Projection.) Based on the results, we'll decide together whether there is an opportunity to expand the project. At the very least, you'll get a fresh perspective on your product line issues, and I'll fine-tune my methodology in the process!

Interested in trying it out? Send me an email or call me to learn more.

AND FINALLY, A WORD ABOUT "PRICING SOPHISTICATION"

"Improving Revenues in the Short Term"
"Discount Structure Dynamics for B-to-B Markets"
"Changing/Deviating from the Price"
"Segmenting Markets to Develop Pricing Strategies"

These are just a few of the issues which occupy a large part of the Foodservice Marketer's time and energy. Over the years, I've worked with a lot of clients who struggle with pricing concerns, ranging from overall strategy to bracket structure to billback management. I have yet to find a company that feels they have a handle on price management, yet it is one of the primary levers to increase both short-term and long-term profitability.

Next week, I'll be investing 3 days of my time (and more than a few of my dollars) to participate in the PriceX Pricing Conference in Chicago. I had never heard of it, until a Marketing Manager at one of my client companies brought it to my attention. The materials, agenda, and speaker list appear to be first class, so I'm looking forward to learning a lot.

Hopefully, I'll bring back some more sophisticated approaches to pricing, that will help foodservice manufacturers improve their performance in this critical area.

I'll have a lot more to say on the topic in the coming months, and look forward to sharing with you…

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