FOODSERVICE MARKETING INSIGHTS

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

Volume 3, Issue 3
March, 2005

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REDISTRIBUTION UPDATE:
"More on Pinning Down Cost Savings"

Last June, we discussed "Pinning Down those Elusive Cost Savings" (if you missed it, the archived issue can be found in the "Free Resources" section of our website). The point was that even if everyone understands that less activity equals lower cost, and even if a manufacturer reassigns resources as a result of redistribution, the P&L often does not explicitly reflect the savings. A common reason is the use of allocations to assign costs across multiple business units.

Today, we're working with manufacturers who are facing the pending impact of the Sysco RDC openings. They have built their Sysco RDC programs based on assumptions about how the RDC's will help drive costs out of the system, and they seem to have two major concerns:

1. Will the cost savings materialize?
2. Will they be able to find them in their P&L's?

Regarding #1, common sense says the hard logistics cost savings will materialize. Fewer, larger shipments in full pallet quantities direct from plants to RDC's will clearly eliminate inefficiencies and costs. Freight bills, outside warehouse charges, and lumper fees will all be reduced or eliminated, providing obvious savings vs. the old model.

Further, the softer transactions and inventory cost savings will materialize if companies respond appropriately to the new model. Now is the time to think about how the RDC's can change your internal operations, and reorganize as necessary to capture the expected cost savings. This should include everything from understanding the reduced paperwork and activity in Order Entry, Traffic, and Accounts Receivable to re-thinking your safety stock assumptions.

Regarding #2, it's also time to get your Accounting group involved in understanding these changes, and figuring out how to reflect them in your P&L. If there is a standard "per pound" allocation assigned to your business, perhaps it needs to be reduced for volume that flows through the RDC's, as well as other redistributors. Maybe you need a new line item showing "Redistribution Impact" as a cost-reduction for this volume.

Whatever the case, it makes sense to be able to see the benefits of redistribution in your P&L as clearly as you can see the cost of the program. Without it, you're inviting misunderstandings and second-guessing in the future.

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?"

"It is a good rule to face difficulties at the time they arise and not allow them to increase unacknowledged."
-Edward W. Ziegler

THIS MONTH'S FEATURE ARTICLE:
"National Brands and Innovation"

Recent issues of Foodservice Marketing Insights have explored the role of brands in foodservice, as well as the nature of demand and our ability to influence it via innovation. In the past few weeks, two articles have surfaced which shed additional light on these topics.

In the first, stock analyst Jim Jubak praises Procter and Gamble as "A Brand Name Survivor in a Wal-Mart World." (http://moneycentral.msn.com/content/P109896.asp?) Although the article clearly has a retail consumer focus, the lessons pertain to foodservice as well.

Jubak asserts that "store brands are no longer the lower quality knock-offs they once were." (We can substitute "distributor-label" for "store brands.") He states that consumers understand that many store brand products are "produced in the same factories as the brand products are." (I'm pretty sure most operators have figured this out as well.) Then he poses the question, "so what can possibly justify paying a premium price for Pampers or Crest over the store brand?"

His answer: "Innovation."

According to Jubak, the growth of private label has "redefined what it means to be a brand. That change has led to the death of the traditional brand." He goes on to make the case that in the old world of "traditional brands," consumers were willing to pay a premium because the brand name represented "familiarity" and "quality." Now that private label is firmly entrenched and the quality playing field is essentially level, the demand for national brands is driven by different forces. Jubak writes "in the post-brand world, consumers pay a premium price for the brand because of product innovation. Newness rather than familiarity sells."

So if you're managing or selling an old-time brand, you'd better not be counting on familiarity and your reputation alone.

In "Food Makers Push New Items" (http://biz.yahoo.com/rb/050226/food_products_1.html), Brad Dorfman writes that "packaged food companies…are preparing a further drive for new products to justify higher prices and win shelf space at a dwindling number of retailers."

"The number of new food items has jumped, reaching 14,826 in 2004, up from 13,200 in 2000...but analysts question whether new products help the industry increase sales or just keep companies from losing share to private label brands."

"It's not clear that this is accelerating things," Andrew Lazar, an analyst at Lehman Brothers, said. "Still, the stock market tends to reward food companies that can come up with new products."

It seems that whether innovation creates a bigger pie or staves off private label, it's an important ingredient in the future success of branded food companies. If you agree that private label has achieved parity on quality, and will always win on price, you owe it to yourself to make sure your company maintains and increases your lead on new product innovation.

"Dave did great work, and really helped light the way for us"
-VP Supply Chain, Major Foodservice Manufacturer

LESSONS FROM HOCKEYTOWN

Those of us who live in the Upper Midwest or Northeast are acutely aware that the NHL has shut down for at least an entire season. The rest of you probably have heard about it, but likely without the move-by-move coverage that had dominated the sports news here.

Here in "Hockeytown" (the Detroit area), the game is more deeply ingrained in our lives than perhaps any other place in North America. Whether it's the success of our Red Wings, our proximity to Canada, or the current lack of professional football and baseball in Detroit, many of us consider hockey our favorite sport.

But as the league expanded rapidly over the past 15 years, huge new franchise fees were divvied up amongst the owners, masking some of the sport's fundamental business problems. Limited national interest has depressed income from TV contracts. Player salaries have grown alarmingly. Most of the owners were losing money in their day-to-day operations, and neither side was willing to swallow the bitter pill that would allow the league to continue under a radically different model.

So with the league shut down, the obvious predictions were that the numerous minor-league teams would see a huge increase in attendance, and that hard-core fans (like myself) would have a miserable winter of discontent. But it seems that neither is happening.

And that brings me finally to the lessons which apply to the foodservice business:

1. **"The Good of the Game" is always trumped by individual self-interest.**

This is why industry-wide initiatives such as EFR look good on paper but never really get off the ground.

2. **There's always a substitute, and it doesn't have to be an equivalent product.**

If you begin to think that your product is so unique as to be irreplaceable, remember that there are 14,000 new potential substitutes offered every year. Taking your foot off the gas on marketing, selling, and innovating is inviting distributors, operators, and consumers to discover new alternatives.

3. **A business model propped up by income which is not generated by the core business cannot endure.**

As distributors become more dependent on sheltered income, and manufacturers rely more on "buying business" with financial contracts, we are building a bubble which must burst some day.

Class dismissed!

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