FOODSERVICE MARKETING INSIGHTS

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

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REDISTRIBUTION UPDATE:

"Part 1 of John Tracy Interview"

This month, we present the first half of our interview with John Tracy, President of Dot Foods. John was good enough to field a series of questions based on input from subscribers to Foodservice Marketing Insights; what follows are your questions, John's answers, and my "Implications for Manufacturers."

DAVE: What new segments is Dot Foods pursuing in order to continue your growth, and do you ever see Dot serving major operators?

JOHN: Dot is not in the operator business and does not intend to serve operators. We have been responding to chain operator requests to understand our supply chain solution for manufacturers so the chain can embrace the manufacturer using our system to more effectively move product from the manufacturing plant to the serving distributor.

Our growth is currently being fueled by the overall growth in demand for redistribution services in all channels and the continued education on supply chain economics by distributors and manufacturers alike. Almost every distributor and manufacturer in foodservice, convenience store, retail and vending are spending time and money studying their supply chain and analyzing how to effectively utilize redistribution to improve their ability to serve each channel, reduce costs on LTL orders, and increase sales.

Our growth segments are across the board with:
-more categories of products available to each channel
-convenience store sales
-equipment & supplies, and
-continued expansion of our refrigerated and frozen offering

IMPLICATIONS FOR MANUFACTURERS:
Dot Foods is likely to become an important link in supply chains beyond the foodservice broadliner, serving distributors who specialize in C-Stores, vending, and the perimeter of the grocery store. The manufacturer people responsible for these channels should make it their business to understand Dot's role and Dot's potential to augment their marketing and logistics strategies.

DAVE: Most manufacturers are happy to have Dot serve less-than-minimum customers, and even those that buy in their smallest price bracket. Dot asks manufacturers to consider turning over all customers buying in less than ½ Truckload quantities. Should a manufacturer consider Dot's value to be the same across all of these customers and order sizes, or is it more accurate to say that Dot's value to the manufacturer is much higher on the smallest customers than on the 19,000 lb customers?

JOHN: We feel each manufacturer is different depending on their product category, temperature and offering. In general, our feeling is that the issue is "does the manufacturer have a real understanding of their cost to serve?"

As redistribution becomes more accepted by manufacturers and distributors alike in all channels, the primary challenge for the manufacturer is to know exactly what their cost to serve is for all order types. It is easy to estimate that a minimum order should go through redistribution, but it gets harder to make that decision the higher the order size. The issue should not be how much volume per month, as much as it is what does it cost the manufacturer to serve each of the different order sizes, and compare that to the cost to serve through a re-di.

Most manufacturers do not know these economics because they have not needed to, and have used averages to estimate; the averages are distorted by the 80/20 rule (20% of the customers do 80% of the business).

IMPLICATIONS FOR MANUFACTURERS:
If you use average freight costs to compare to your Dot program cost, you risk drawing the wrong conclusions. Only by drilling into the details of logistics costs for various customer types and order sizes can you make informed decisions about who should and should not be served via redistribution.

DAVE: Once Sysco has their Regional DC network up and running, how will that change your business model? What will the impacts be on manufacturers who have Dot programs and ship through the Sysco RDC's?

JOHN: We don't anticipate a change in our business model. Sysco's RDC is a pure logistics solution for Sysco-only product from the manufacturer to Sysco that will change the supply flow for manufactures to the market, by taking out existing volume to Sysco operating companies. We hope the manufacturer understands our program includes a top line growth strategy, in addition to a logistics solution for distributors in multiple channels across the country.

We are a logistics solution for manufacturers on all LTL orders, possibly with the exception of certain suppliers that are in the Sysco RDC (which will not be all Sysco's suppliers). We are a sales and marketing solution for the manufacturer to increase their sales by effectively reaching distributors of all types without any case minimums, in multiple channels. We are providing a lot more functions than Sysco for the manufacturer because our scope and approach are a lot different. We offer not only sales support to distributors, but also multiple marketing initiatives including a sample solution, advanced e-commerce opportunities, Principle Resources and the most effective new item introduction process in the industry, among others.

We are certain Sysco will be successful with this initiative, as they have been with most of their strategies, but our model is both a logistics and growth strategy.

IMPLICATIONS FOR MANUFACTURERS:
The world is certainly going to look different for Supply Chain planners and managers in a few years. Now is the time to analyze your costs in detail, so you can make intelligent decisions about programs with Sysco, Dot, and any other redistributors.

DAVE: Do you envision development of a Dot Foods or other private label? If so, how might that work?

JOHN: At this point, we have no plans for a Dot label or other private label. The majority of our volume is with the manufacturer brands, which we support and embrace, and are happy to offer the group and corporate labels on products that our manufacturers support and the volume warrants.

IMPLICATIONS FOR MANUFACTURERS:
"Whew!"

NEXT MONTH:
We'll explore how Dot Foods manages multiple manufacturers in the same category, the relationship between bracket pricing and redistributor allowances, and how manufacturers account for their redistributor programs.

Franklin Foodservice Solutions has been helping manufacturers solve the redistribution puzzle since 1996. Visit our website **(www.franklin-foodservice.com)** to download a copy of our article "Does Your Redistribution Program Address These Realities?"

"Life is like a game of cards. The hand that is dealt you represents determinism; the way you play it is free will."
--Jawaharlal Nehru

THIS MONTH'S FEATURE ARTICLE:
"How I Spent My Time at the PriceX Conference"

Last month, I invested 3 days and quite a few dollars to attend the annual PriceX Pricing Conference in Chicago. While their agenda and materials were first class, overall I cannot recommend this conference for Foodservice Marketers because there would not be sufficient return for your dollars. The quality of the presenters and workshops ranged from excellent to disappointing, with more than a few software companies (and even consultants!) presenting poorly-disguised sales pitches.

That said, the best of the sessions did a lot to stimulate my thinking about the pricing problems faced by all foodservice manufacturers. I am now aware of several excellent books and resources, which I am pursuing in order to offer some new thinking and approaches to building revenue for my clients. A few highlights:

-Our problems are strikingly similar to those experienced by other industries. I had a truck wheel manufacturer tell me that they offered large rebate deals to major truck manufacturers, but had to gross-up their price to distributors to cover this cost. As a result, they were uncompetitive "on the street." Sound familiar?

-For most companies, if you create a scatter diagram of discount amounts by customer size, you will see little correlation. There is often a greater correlation between discount amounts and the Sales representatives responsible for each account…

-Three thing must happen for you to achieve a price increase:
1. Your industry's capacity utilization must be at the optimum level
2. Your economic justification must be real
3. You need RESOLVE, and must be prepared to lose some volume in order to make the price increase stick

-The Pocket Price Waterfall (see February 2004 Foodservice Marketing Insights at http://www.franklin-foodservice.com/free_resources.html) got a lot of attention. Manufacturers should examine List Price, Invoice Price, and Collected Price by customer, and set goals and action plans to plug the worst leaks and reduce the height of the waterfall

-A firm called Metreo (www.metreo.com) had a good presentation on "The 7 Deadly Sins of Pricing," including symptoms and treatments. One key point: if all of the functions impacting your "pocket price" act independently, there will be unnecessary leakage

As I continue to work in this area and make time to learn from the experts, I'll have a lot more to say about price management.

AND FINALLY, A WORD ABOUT "EMOTION"

Maybe it's just me, but the best negotiations seem to take place when all parties are able to remove their emotions from the conversation (or at least suppress them for a while). It's been a long time since I sat across the table from a distributor buyer, but I have strong memories of meetings that started off with angry posturing and went downhill from there. Nothing meaningful was ever accomplished.

If a proposed deal doesn't work financially for the other party, will anger and sarcasm change that fact?

Has getting mad at a buyer ever resulted in greater sales revenue?

Has a buyer ever gotten a better deal by blasting the sales representative? (Well, maybe, but the supplier always finds a way to "get even.")

Conversely, when the parties approach negotiations in a civil manner, focusing on the facts and working hard to understand the other's position, good things seem to happen. Even when a deal can't be worked out immediately, people maintain respect for one another that greatly increases the chance for success in the future. And suppliers are naturally more inclined to go the extra mile for a customer whom they respect.

Hey, it's tough out there and there probably are some trading partners who only respond to intimidation. For all the rest, keeping the egos and emotions in check looks to me like a winning approach.

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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