



## 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:**

“How Much Should We Pay for a Redistribution Program?”

#### **FEATURE ARTICLE:**

“Who is Going to Change Manufacturer-Distributor Relationships?”

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#### **REDISTRIBUTION UPDATE:**

“How Much Should We Pay for a Redistribution Program?”

I’m occasionally asked to throw out a figure for a “typical redistribution program.” The fact is I’ve yet to see a typical program, because the allowances are based on each manufacturer’s cost and price structure. In addition, the final negotiations between manufacturers and redistributors often involve some “horse trading” which has no relationship to either party’s costs.

That said, there are some rules of thumb which generally hold true.

When manufacturers consider Cost Avoidance, Marketing Value, and Other Considerations such as revenue impact, they generally arrive at a redistribution program which costs more than their average logistics cost. This is consistent with the fact that most of the customers served through redistributors are smaller, higher-cost customers to begin with. The cost premium is supported by access to new customers, improved customer satisfaction, and other benefits which are easy to understand but difficult to measure.

So don’t be misled by a redistribution allowance figure which appears too high at first blush; as always, thorough analysis and understanding of actual costs is needed to gain a true understanding.

I'm also surprised at the number of manufacturers who charge their redistribution allowances against "Marketing" or "Trade" budgets. We feel that the cost of distributor programs should be allocated to the departments that benefit from redistribution; one model is shown below:

Supply Chain funds the program based on their freight, warehousing, and order management savings

Sales and Marketing "picks up the remainder" as a reflection of Marketing Value

If you've done the work to understand your true cost avoidance, it is a relatively simple matter to allocate some of the redistribution allowance to your Supply Chain group. It will also ensure that they have some "skin in the game" when it comes to working with distributors, which is always a good thing!

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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"Volume is vanity; profit is sanity."  
- D. Bruce Merrifield, Jr.

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

"Who is Going to Change Manufacturer-Distributor Relationships?"

Like the weather, everybody complains about the way manufacturers and distributors work together, but nobody does anything about it. It is telling to see the topic of "Manufacturer/Distributor Partnerships" still being given lip service at the big foodservice meetings; I'm pretty sure it was on the agenda when I attended my first IFMA conference in 1979!

The USFS accounting issue dragged a lot of topics out from under the rug and into the light of day. While there was hope that this scrutiny would lead to reform, the people I talk to seem convinced that we're probably going to end up with "business as usual, minus the excesses."

The more I consider the hairball that is made up of special pricing, shelter, marketing programs, deductions, billbacks, bids, headquarters programs, local programs, growth programs, etc., etc., the more convinced I am that there is a better way.

To me, the day-to-day transactions between a manufacturer and distributor can be drastically simplified by adopting a model based on 3 "facts of life":

1. The distributor cannot survive on gross margins alone. Whether it's due to contract pricing, market saturation, or poor business practices, distributors cannot charge high enough prices to their operator customers to generate sufficient profit. Like it or not, income derived from manufacturers is critical to distributors' financial health.
2. Distributor "marketing programs" are just a thinly-veiled profit center for the distributor. Let's face it, manufacturers have a hard enough time figuring out how their OWN Marketing efforts drive their business. I have yet to find one who believes that participation in distributor marketing programs is anything more than "keeping the wolves at bay."
3. It is no exaggeration to say that at any moment, every large manufacturer has THOUSANDS of outstanding invoices, billbacks, credits, and deductions pending with Sysco and USFS alone. To think that either the manufacturer or distributor has a clear picture of revenue, cost, and margin is folly; both parties have a vested interest in streamlining and clarifying the flow of funds between them.

The time is ripe for willing manufacturers and distributors to try a better way. Over the next 3 weeks, I'll finish up a draft White Paper outlining my proposed new model. I'm hoping that a few of you will be interested in reviewing it and helping me shape it up; if so, please send me an email ([dave@franklin-foodservice.com](mailto:dave@franklin-foodservice.com)) and I will send you a copy in early January.

If we can get it right, the next step will be to sit down with a cooperative distributor and give it a test - should be a great way to start off the new year!

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"Dave is a seasoned business executive who has been involved in most any type of business situation you can think of. He has helped turn companies around that lacked sales growth and momentum, helped reduce costs and improved their competitive position in the marketplace and has also built solid business plans and strategies with the executive teams of his clients. Dave is not only a "fixer," he is a builder. He has a work ethic and demeanor that gains respect of the management and is immediately considered a member of the inside team."

- Former CEO, \$500 M division of Fortune 500 food company

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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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