

# FOODSERVICE MARKETING INSIGHTS

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From Franklin Foodservice Solutions and Dave DeWalt

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### **REDISTRIBUTION UPDATE:**

"What Do You Know?"

Last month, I had the opportunity to help a client take a good hard look at exactly how their customers order. Using readily-available data from their freight system, we analyzed every customer's orders over time, and classified every order by total weight, as well as Deliveries vs. CPU's.

For each and every customer, we were able to see both the order frequency and the range of order sizes over the course of the year. And we grouped every customer into a "bucket" based on how they ordered.

As a result, we identified those customers who ALWAYS ordered in small quantities, vs. those who SOMETIMES order in small quantities. And we put the spotlight on those customers who for whatever reason were getting away with a lot of less-than-minimum orders. Finally, we could see which customers consistently ordered in larger quantities, rarely or never dipping below 10,000 lb.

All of this information is helping the manufacturer make smart decisions about how best to serve their customers.

What's the point? There are two:

1. We are entering a new era of sophistication, as savvy manufacturers and redistributors begin to consider the best ways to segment the market.

Redistributors initially were viewed as the way to serve "small distributors." Then it became clear that redistribution made sense for "small orders," regardless of the overall volume purchased by the distributor.

Today I see manufacturers and redistributors considering not only order size and frequency, but product mix as well. It may make sense in the future to offer high-volume items directly in full pallet quantities only, and to source all slow-movers and case-pick items via redistribution. This approach would throw the customer size AND order size questions out the window, but could help further optimize your supply chain.

2. There is a ton of data floating around your company's freight system which never sees the light of day in the Marketing and Sales departments. As a result, most Marketing and Sales people don't know much about order size, order frequency, number of line items, and the like. But this data tells a story about how your customers' order behavior drives your costs, and how it should drive your order policies, pricing decisions and redistribution strategy.

So if you're looking for a new way to squeeze a few more profit dollars out of your existing business, the answer may lie right at your fingertips, in your freight data. It ain't sexy, but it works!

Franklin Foodservice Solutions has been helping manufacturers get more out of their redistribution programs since 1996. Visit our website ([www.franklin-foodservice.com](http://www.franklin-foodservice.com)) to read and download any of our newsletters, white papers, and articles about redistribution.

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"Adapt or perish, now as ever, is nature's inexorable imperative." -H.G.Wells

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**THIS MONTH'S FEATURE ARTICLE:**

**"So What?"**

Fifteen months ago, I wrote an article titled "The Times They Are A'Changing!" It raised the question of whether manufacturers and broker agencies have changed their ways of working together, to keep up with changes in the foodservice business.

Today, I'm working with the Foodservice Sales and Marketing Association on a project to help answer the question.

At the FSMA Top2Top Conference in February, (<http://www.top2toponline.com/>) I'll be presenting results of a study that looks into the forces driving change, and how manufacturers and agencies are adapting. We've already surveyed many manufacturers and agencies of all sizes, and are in the process of conducting in-depth interviews to dig below the surface and identify solid opportunities.

My original article is reprinted below, followed by an invitation for you to join the dialogue. Please have a look, and if you have the feeling that "there's got to be a better way," consider getting involved and contributing your thoughts.

Here's the article:

"The Times They Are A'Changing!" (Reprinted from September 2006)

Yes, things are changing in our business, probably more rapidly than at any time in its history. And the broker agencies who connect manufacturers with the local marketplace are feeling it.

Continued manufacturer consolidation means ever-expanding product lines and a blurring of the concept of "line conflicts." Some agencies themselves are consolidating and forming regional companies in response to manufacturers who want to standardize and simplify their sales function. Chains continue to take a larger share of the foodservice market, limiting the opportunity for growth in commissions. More and more volume is being run through GPO's at special prices, further depressing commissions and increasing the likelihood that a local operator is served by an out-of-market distributor. And internet technology is enabling new levels of market information, while fueling the hunger for more.

But through it all, the industry clings to a 40-year old model regarding how manufacturers and agencies work together. For instance:

-why do we ask agencies to sell operators within a specific geographic territory, but pay them based on sales to the distributors within that territory, regardless of where the product ends up?

-why do we continue to “call conflicts” when consolidation and regionalization have made them practically unavoidable?

-have we considered the potential benefits of allowing an agency to position similar lines as complementary, rather than competitive, and therefore optimize both businesses?

-why do manufacturers shoulder 100% of the bill, when distributors also have considerable influence over how agencies spend their time and effort?

-why do we respond to growing distributor demands for shelter by cutting agency commissions, while demanding increased support from the agency and expecting next to nothing from the distributor?

In some cases, we are handcuffed by lack of a better way. For example, we do not have the ability to truly “see” all of the volume being done in a market, including that shipped in by out-of-market distributors, and pay the local agency accordingly. But there is a lot more operator volume data available today than there was 10 years ago, and this trend will certainly continue.

In most cases, we are too busy trying to squeeze out this Quarter’s number to step back and invent a better way. But the situation is not being ignored. The Foodservice Sales and Marketing Association ([www.fsmaonline.com](http://www.fsmaonline.com)) is working with agencies and manufacturers to explore new ways to respond to our changing industry. Their website has some excellent publications around these topics. I believe that their work combined with market forces will result in some significant changes in the near future. What do you think?

Now here's the invitation:

If you're a manufacturer or broker agency that is willing to share a new approach or idea, or even if you just have a strong point of view about the current state of affairs, why not weigh in and add it to the discussion?

Please send me a quick email and I'll give you a call to talk it over.

We're not going to be naming names, just working together to find a path to a better way.

p.s. If you've never been to a Top2Top Conference, I suggest you check it out. The FSMA does a great job of fostering an environment where manufacturers and agencies can learn and grow together.

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#### **AND FINALLY, "MY THANKS AND BEST WISHES"**

Thank you to all of you who subscribed to Foodservice Marketing Insights in 2007, and especially to you long-time subscribers who are still with me.

As you've grown in number, you've created a community of manufacturers, distributors, operators, agencies, and others on several continents. And as our industry inevitably becomes more global AND more connected, I look forward to continuing to work with you and for you.

I expect to make some changes to Foodservice Marketing Insights in 2008, just to keep it fresh and valuable. As always, I welcome any comments, suggestions, or criticisms you care to offer.

And now, I wish you a relaxing and peaceful holiday, and all the best in the new year.

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)