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FOODSERVICE MARKETING INSIGHTS

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

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REDISTRIBUTION UPDATE:
"When Redistribution Goes Bad!"

If you've been reading Foodservice Marketing Insights for a while, or have worked with me, you know that I am a believer in redistribution. I have seen very few foodservice businesses that cannot be helped with a well-designed redistribution program. Done properly, redistribution supports, complements, and extends your marketing and logistics strategies.

That said, there are always risks which need to be recognized and managed, so they don't become pitfalls. When redistribution goes bad, Finance, Supply Chain, and even Sales people begin to question the wisdom of participating, casting a dark shadow over the program and limiting its effectiveness.

Here are three risks to watch out for:

1. Because redistribution builds turns and ROI for distributors at no additional cost, it is a very attractive sourcing option for many lines. As long as you are converting your small order, slow turn, high cost-to-serve distributors to redi, both you and the distributor will come out ahead.

But if your large order, low cost-to-serve distributors decide to buy your line through redistribution, you may well end up absorbing higher costs to serve the same business you were serving directly. The distributors will see benefits, but from the manufacturer's side of the ledger, they have become high-cost customers.

2. Some manufacturers do not have consolidated DC's or Mixing Centers, and serve their distributors with a multi-order, multi-plant, multi-shipment system. While distributors strongly dislike this system, there is no arguing that it is a low-cost strategy for the manufacturer.

   If these manufacturers start up a redi program, it is likely that their customers will flock to it, eager to improve their purchasing and inventory management performance. And while everyone wants happier customers, few are eager to pay for it via more costly distribution. And fewer still are willing to sign up for incremental sales volume as a result of happier customers (especially in the next quarter.)

3. If your price bracket structure has artificially high prices for your smallest orders, it can be costly to move them to redistribution. Even if the redi program represents a reduction in logistics and transaction costs, there is a significant revenue loss when the volume is sold to the redistributor at Truckload or FOB prices, vs. direct to the distributor at your highest price. This revenue forfeit can erode or even erase the cost benefits of redistribution.

Anyone who has tried to reverse these situations once they appear knows that an ounce of prevention is worth a pound of cure. As we've said before, price bracket structure and redistribution programs are tightly linked; smart design and disciplined pricing practices go a long way to prevent problems in redistribution. And that discipline must extend to your redistributors; if they offer Truckload prices, you may end up with very few direct customers.

We have also developed tiered redistribution programs which recognize that large customers may elect to buy from redistributors, but limit the manufacturer's exposure to higher costs.

The bottom line is that wise manufacturers will take a hard look at what is happening and what could happen, before entering or renegotiating a redistributor program.

Franklin Foodservice Solutions has been helping manufacturers solve the redistribution puzzle since 1996. E-Mail us **(mailto:dave@franklin-foodservice.com)** to receive a copy of our article "Does Your Redistribution Program Address These Realities?"

"Opportunity is missed by most people because it is dressed in overalls and looks like work." -Thomas Edison

THIS MONTH'S FEATURE ARTICLE:

"How to Control Trade Spending"

The pressure on foodservice manufacturers to increase trade spending is excruciating. And if you're struggling to hold back the floodgates, be assured that you have plenty of company; I have yet to see a foodservice manufacturer who is comfortable with either their spending level or the direction in which it is heading.

But as a colleague put it last week, "trade spending is a short-term problem that requires a long-term solution."

The short-term problem side gives distributors the upper hand:
-they essentially say "pay up or get thrown out"
-you have a volume and profit number to make
-there are tight deadlines for analyzing and deciding on trade spend "opportunities"

The long-term solutions side puts power back in your hands:
-differentiating your product and service offering from the competition
-establishing and sustaining "pull" for your brands and products
-building alternative distribution channels with low-to-no "toll fees"

Attempting to stimulate demand via trade spending brings to mind the Rodney Dangerfield line, "When I was a kid, my Mom had to tie a pork chop around my neck to get the dog to play with me!" If your product is Rodney and your trade program is the pork chop, you're going to have a hard time getting respect, much less sustainable profits.

Stimulating demand by developing and marketing great products will at least help to lower all of the tolls between you and the operator or consumer.

As a result, foodservice marketers must respond to both the short-term problem and the long-term opportunity. And although it feels like trying to go north and south at the same time, there are plenty of people out there who are slowly but steadily making progress on both fronts.

The message is, while it is tempting to de-emphasize true marketing strategy in favor of "making the numbers," you must find the right balance and stick to it. Only by continually developing differentiated products and communicating the value of your brand, can you hope to break out of the trade spending spiral.

"I think of Dave as a 'roll up your sleeves, get the job done' guy who companies can use when they have limited resources"
-Corporate Supply Chain Manager, International Food Manufacturer

AND FINALLY, A WORD ABOUT EFR

Have you noticed that no one talks about EFR anymore? Back in the mid-90's, everyone not only talked about it, but most agreed that it was a great concept that would save millions for everyone in the foodservice supply chain. And we were right.

But instead of an industry-wide revolutionary change, we got bits and pieces, implemented in a piecemeal fashion by a handful of manufacturers, distributors, and chains. And nearly 10 years later, the individual companies in each link of the chain continue to chip away at their piece of the puzzle, hoping for marginal improvements in service, inventory levels, and costs.

So what went wrong? I believe that the major barrier can best be explained as "no one makes bonus by making the industry more streamlined."

A simple example was seen among smaller manufacturers who did not bar-code their cases. While it's obvious that bar-coding offers great benefit all along the supply chain, the cost of providing it is all borne by the manufacturer. And if a given manufacturer does not use bar-coding internally, he is hard-pressed to justify investing in equipment to provide a downstream benefit.

Glen Terbeek of Andersen Consulting recognized the dilemma almost immediately when he wrote that "ECR only perpetuates an old model that's irrelevant," and "it's really about reducing costs and redistributing profits in the old model – it's not about aligning revenues and profits with value created."

I'm convinced that for better or worse, the only force that really drives change is the marketplace, usually in the form of a "direct order" from an important customer. Once Sysco demanded bar codes (or EDI capability), it became a no-brainer to invest in it. When McDonald's began to demand visibility into their suppliers' costs in the early 80's, the books were opened. And manufacturers learned once again that it's good business to respond to the legitimate demands of a good customer.

So while we may never refer to "EFR" as anything but a relic, you can bet that the underlying principles will continue to be worked on, as increasingly-sophisticated customers bring their demands to manufacturers. And that's probably the most efficient and best way to get the right things done.

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