FOODSERVICE MARKETING INSIGHTS

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

Volume 3, Issue 2
February, 2005

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REDISTRIBUTION UPDATE:
"The Commitments"

Last week, as we were talking through the Instill Webinar called "Advanced Issues in Redistribution," a light bulb went off in my head. We were discussing all of the work which should be done up front in developing a redi program so that future problems can be avoided, and it hit me once again that a redistributor program represents one heck of a commitment for both the manufacturer and the redistributor.

For the manufacturer, launching a redistribution program involves a leap of faith in that you are putting your customers' satisfaction into the hands of a third party. Your customer service and order fulfillment expertise is being replaced by that of the redistributor. You will count on the redistributor to provide timely and accurate information to support your distributor programs, allow you to pay broker commissions and assign sales credit. And you're trusting the redistributor sales force to represent your product line in a fair and positive manner.

For the redistributor, agreeing to take on your line requires a similar leap of faith. Your redistributor is betting that your company will support and build upon the goodwill and positive reputation he enjoys with his distributor customers. He'll count on you for timely and accurate information about your product line, pricing, and customers. And his ability to provide excellent service levels to distributors will be directly impacted by your ability to provide excellent service to the redistributor.

What makes the redistribution commitment unique is the extreme difficulty of exiting a program once it is established. When a new program is launched, distributors will make their "buy direct vs. buy from redi" decisions, requests will come in for your custom-label and contract-priced products, and there will be a steady procession of unique demands placed upon your operating departments. None of these are bad things if you have properly prepared for them and have established open communication with your redistributor.

But once things get rolling, it is nearly impossible to "go back in time," or even to make a major change in direction. When hundreds of your distributors are buying your line from a redi on a weekly basis, it's very risky to ask them to return to buying direct with larger, less frequent orders. After a redi has announced that he has your line, it's embarrassing for all parties to begin placing restrictions on customers and products. And when your Customer Service and Supply Chain departments have adopted to new order patterns, it's hard to imagine the impact of bringing thousands of small orders back into the mix.

If you'll pardon the obvious "marriage" analogy, this is a case where a lot of work on pre-nuptials will help ensure long-term success. Getting it right up front will prevent a lot of misunderstandings and unpleasant conversations, both inside your company and with your redistributor. And when problems do arise, a thoughtful, unemotional approach to finding a solution will go a long way toward ensuring that both you and your redistributor can honor your long-term commitments.

NOTE: If you missed the on-line seminar and would like to receive a copy of the PowerPoint presentation, you may download it from the "Free Resources" section of my website, or just drop me a line and I'll be happy to send it to you.

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?"

"Most of our divisions are selling products that are one step away from commodity hell." - Jeffrey Immelt , CEO of General Electric

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THIS MONTH'S FEATURE ARTICLE:
"Is It a SKU, Or a Product?"

Back in June, I wrote about the challenge of "SKU Rationalization" projects, citing a friend who says they always end up becoming "SKU Justification" projects. (Back issues are archived in the "Free Resources" section of our website.) Now that I'm immersed in another major project of this type, I've become acutely aware of how the differences in language used by people reflect the differences in their attitudes toward the product line.

For example, when new products are being developed and launched, the language ranges from businesslike ("concepts" and "platforms") to almost family-like ("sister categories" and "new babies" which need to be "nurtured"). Only when someone determines that the product line is bloated do these products in which the company has invested so much energy become mere "SKU's," or even "dogs!" And it seems that once we start referring to products as "SKU's," we are giving ourselves permission to forget all of the good reasons we conceived, developed, and introduced these products in the first place.

Now don't get me wrong. Taking the emotion out of the product-line rationalization decision is one of the best reasons to bring in outside resources to help. One of our most interesting tools is a rainbow analysis which uses side-by-side bar charts to demonstrate the % of products producing each 10% of sales volume. It's not unusual to show 60% of the products (often hundreds of products) producing the bottom 10% of volume, and only 2-5 products producing the top 10%. It's a sobering way of seeing the product line in a new light, and often helps remove the barriers to a healthy discussion of trimming it down.

Yet at the same time, a 100% cold-hearted approach is not only disrespectful, but foolhardy. One can look at the rainbow analysis and conclude that the hundreds of products supporting the bottom 20% of volume are like the foundation of a great skyscraper. Everyone likes to look at the shimmering architecture, but no one thinks about the tons of concrete and steel below the surface that hold it up. Likewise, some would argue that without all of the "must-have" products that eat up so many resources, they would not have the few high-volume star products that represent the majority of revenue and margins.

So the art is in finding the balance between head and heart, rational and emotional, fact and myth when making recommendations on products to discontinue. It involves doing the math, but also doing the deep dives with Sales and Marketing to understand the true impact of product discontinuation. It requires acknowledgement that all of these decisions involve some level of risk, and concrete plans to minimize that risk.

And to help make that point, I'm going to try to stop using the term "SKU Rationalization," and instead call it what it really is…"Product Line Rationalization!"

AND FINALLY, A WORD FROM A READER

Last month, I speculated about the nature of demand in the food industry, and wondered to what extent manufacturers are able to influence it. If you've been reading for a while, you know how I feel about so-called "marketing programs" which are at best "defensive spending" to prevent distributors from taking harmful action against your product line. We raised the questions "to what extent are you as a food manufacturer able to influence demand for your products?" and "are there some fundamental truths about demand that shape your actions?" and invited readers to share their thoughts about the extent to which a manufacturer can influence demand in the foodservice channel.

A long-time reader of FSMI responded with these thoughtful insights:

"The foodservice channel is stacked against the manufacturer – this isn't retail! Branding, marketing, or pricing may produce spikes, but will not influence the market in the long run. You can "buy a contract", but that has nothing to do with what you're selling, it's all about what you're paying! The only way a manufacturer can significantly impact demand is through innovation. Providing a better product. Product innovation affects the operator level, which is highly fragmented. Getting a lot of different operators to demand your product is the key."

Looking back over my experience, I have to agree that the only times we created sustainable increases in demand were when we introduced something truly new to the marketplace. If memory serves, all of the other R&D, marketing, selling, and brand-building initiatives produced results that were at best hidden, more likely fleeting, and often non-existent.

If this rings true for you, the question is how much of your Marketing and R&D efforts are truly directed at innovation, vs. tweaking what you've already got? Are you prepared to learn about your operator customers, try a lot of truly new ideas and fail fast, or does your company prefer to stick with the familiar approaches and typical results?

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