FOODSERVICE MARKETING INSIGHTS

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From Franklin Foodservice Solutions and Dave DeWalt

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REDISTRIBUTION UPDATE:

"With What Can We Compare Redistribution?"

It seems that in the foodservice world, there are those who "get" redistribution, and those who still don't "get it." Despite the rapid growth of Dot Foods and regional redis, and Sysco's headlong charge into redistribution, I still hear naysayers who are convinced that redistribution adds unnecessary steps and costs to the foodservice supply chain.

But it's also fair to say that even people who have committed to the redistribution concept (including yours truly) sometimes struggle to make a clear economic case for a redi program. This is often a result of less-than-adequate accounting systems which do not reflect the cost avoidance side of redi as clearly as they report the cost of the redi allowance.

Bruce Merrifield (www.merrifield.com) addressed this issue when he wrote "since their founding, Dot has grown at an 18% compounded annual growth rate even though both the manufacturers and distributors that deal with them have done so on "intuitive or instinctive" economics. Although Dot has worked hard at teaching manufacturers about their total cost to serve and teaching distributors about their total procurement cost, both sets of channel players are, on average, just starting to understand Dot's purpose intellectually…"

Just for today, let's set aside the dollars and cents arguments for redistribution, and present some analogies. So with what can we compare redistribution?

One reader offered that "redistribution is like co-packing." His point is that manufacturers routinely elect to outsource the manufacturing of products which require expertise or capability which they do not possess. In so doing, they avoid making a costly investment in an area which lies outside their core competence. Similarly, redistribution enables excellent service to small order, high cost-to-serve customers, without the need for a major investment in specialized logistics capability.

Ten years ago, a redistribution executive told me that "redistribution is like taking your shirts to the dry cleaner, instead of washing and ironing them yourself." He said that if you just compared costs, you'd never go to the dry cleaner again. But most of us instinctively understand that the investment in dry cleaning allows us to spend our time and energy on more rewarding tasks. Likewise, redistribution removes the burden of small orders from Customer Service, Traffic, Shipping, Inventory Planning, Billing, and Accounts Receivable. We know that's worth something, we just can't see it on the P&L!

Finally, "redistributors are like distributors." If you think through the supply chain, there are good reasons why you don't have direct selling and shipping relationships with every operator. To do so would require a colossal increase in the scope of all of your operations. Imagine receiving, shipping, billing, and collecting on several orders per week from tens of thousands of operators – there is not a foodservice manufacturer who could handle it. What's more, there is not an operator who would welcome this arrangement with every manufacturer who supplies him. The distributor provides a clear value to both the manufacturer and the operator by consolidating a lot of small orders into a few large shipments; redistributors provide the same value, but one step back in the supply chain.

In the end, you've got to be comfortable that your redistribution program is a good economic deal. The above exercise is a reminder that good business instincts still play an important role in decision-making, especially when the numbers can't tell the whole story.

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?"

"One never notices what has been done; one can only see what remains to be done." -Marie Curie

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THIS MONTH'S FEATURE ARTICLE:
"Planning vs. Reacting"

A lot is made of the importance of planning, especially among the large, publicly-held companies I work with. Wall Street's insatiable appetite for predictions, projections, and prognostications has spawned countless careers for those with a facility for churning the numbers to create forecasts. More than a few CEO's and Foodservice VP's have become seduced by the endless cycle of creating annual plans, tracking performance against those plans, reporting out, and revising the outlook for the remaining year. Others hate it, but can't seem to break away long enough to effectively run their businesses.

For 6 months, I had the misfortune of working for a boss who seemed to be transfixed by the process. Business was not good at the time. Two days each week, he would herd the Marketing and Sales people into a conference room, where we'd spend hours analyzing "actual vs. plan" for categories, channels, and products. His dream was to get us to produce extremely accurate forecasts for the coming months.

We felt as if we were in the cockpit of a plane that was losing altitude, all of us reading the instruments and scribbling notes, trying to predict the moment of impact. No one had time to reach over to pull up on the stick!

The fascination with planning is matched by a general disdain for "reacting." We're told to "be proactive" and "get out in front of the business." Great concepts, but they seem to ignore the fact that never in the history of foodservice has a week, let alone a fiscal year, unfolded as planned!

Take sales forecasting, the bane of every Production Planner. Today, despite terrific improvements in technology and sophistication, "improving forecast accuracy" remains high on the wish list of most foodservice manufacturers. "Poor forecasting" usually is fingered as the culprit whenever a company experiences service problems.

But the reality of the foodservice market was summed up during an interview with a Purchasing Manager for a major hotel chain. He said "our Banquet Managers book wedding receptions and other large functions 6 months to a year in advance, but they don't tell the distributor they need 800 servings of chocolate cake until 3 days ahead!" His point, and mine, is that there is a practical limit to anyone's ability to forecast demand in foodservice. And given human nature, no amount of technology or EFR initiatives is going to make much of a difference.

At the other end of the spectrum from the corporations and their planning are the smaller, privately-held companies who place a premium on responding (a better word than "reacting")to the marketplace. They seem to recognize that the foodservice market is a volatile place, and that plans are not the same as guarantees. I've worked for and with companies where the plant and the general offices are all under one roof, and where orders are reviewed every day so the production schedule can be adjusted on the spot. These companies are justifiably proud of their ability to respond to reality, not plans, and their service levels reflect this.

So what are you to do if you run a large, multi-location foodservice business for a public corporation?

- Do what you need to do to satisfy the "plan junkies," but make sure you are great at responding when things don't go as planned (because they won't). Distributors and operators don't give their business to the suppliers who have the best plans.

- Focus your planning efforts not on the numbers, but on the actions that will produce the numbers. The New England Patriots probably don't spend time predicting game scores for the season, or practice putting 3's and 7's on the scoreboard. They certainly do put together great game plans, and practice executing them flawlessly. Oh, and they're also great at adjusting to what the opposition is doing during the game.

- Stop beating your head against the wall trying to get better at forecasting, and figure out a way to be more flexible in responding to real demand. The forecasters in Sales and Marketing can't be let completely off the hook, but it's probably time for a healthy discussion about the reality of the marketplace and what it takes to compete successfully.

Planning is important, and it's necessary to run a business. But when the planning and reporting process sucks resources away from responding to the marketplace, you're asking for trouble.

AND FINALLY, AN INVITATION

The NRA Show provides a once-per-year opportunity to meet with long-time foodservice colleagues and to make new acquaintances.

I'll be in Chicago Saturday afternoon (May 21) through Tuesday afternoon (May 24). If you're interested in digging into any of the issues we cover in this newsletter, let's sit down for a cup of coffee – I'd love to meet you. Or if you just want to say hello over a cold one at the end of the day, that will be great, too.

Please send me an email or call if you'd like to make an appointment; otherwise, you can ring me up at the show on my cell phone (248/821-1358). Whether you're an old friend or someone I haven't met, I hope to see you at the show.

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