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:
"Other Voices"

This month, we're taking a detour from the usual discussion of costs, revenues, customers, and other details of the redi business. In the past few weeks, I have come across two publications which provide unique perspectives on redistribution, which I think you'll appreciate.

The first, an article titled "Talkin' Transportation" in the May issue of Food Logistics magazine, highlights industry challenges which may be at least partially solved via redistribution. The second, a Jason Jennings book titled Think Big, Act Small provides lessons from 10 companies who have experienced consistently outstanding growth, including a chapter about Dot Foods.

Here are a few highlights, with some pointed questions added:

The Food Logistics article features a roundtable discussion with Supply Chain executives from Retailers, Wholesalers, and Manufacturers. When asked to name their biggest challenge, they responded:

"We are currently most concerned about capacity. An improving economy is increasing demand for transportation and Hours of Service rules are making carriers less efficient. Estimates indicate an impact of anywhere from 5 to 20 percent. So it is like there are that many fewer trucks on the road."

"Today we face considerable challenges in fuel costs, driver turnover and shortage, network consolidation…all combined with mounting pressure from receivers for improved service and lower costs."

Questions:

1. With fewer, more costly trucks available to serve your customers, does it make sense to continue to ship small orders?

2. Are you doing everything you can to maximize the percentage of volume that leaves your plants and DC's in full truckload, one- or two-stop shipments?

3. Does your Customer Pickup allowance program encourage distributors to pick up, thereby relieving you of these transportation headaches?

4. Do you regularly review the mix of business that goes through redistribution vs. direct shipment, to make sure you are optimizing each?

In Think Big, Act Small, Jennings presents a case for focusing on FUNDAMENTALS as building blocks of success. Although his chapter about Dot Foods is titled "Invent New Businesses," the story is as much about Dot's common-sense approach as it is about the vision that created "redistribution." In all of my experience with manufacturers and others who deal with Dot Foods, regardless of the details of their relationship, I sense a respect and admiration for Dot's business principles.

Highlights from the book:

MIND YOUR RESOURCES:
"The firm isn't cheap or frugal so much as it is completely respectful of all resources. Each expenditure and use of a resource is carefully scrutinized and considered."

MAINTAIN UTILITARIAN FACILITIES:
"Every Dot Foods facility is neat, clean, and functional and nothing else. There are no palaces and no monuments and the company has never built anything to indulge an executive's ego."

LET VOLUME DRIVE THE NEED FOR EXPANSION, NOT THE OTHER WAY AROUND:
"Our expansion was driven by the manufacturers and our customers," says Pat Tracy.

"You'd never catch Tracy and his siblings allocating resources to handle revenues they might hit someday."

CONTROL YOUR GROWTH:

“Dot Foods could easily ramp things up and increase business at an even faster rate…instead, it has chosen to grown in a steady and controlled way. The company isn’t so greedy as to need it all tomorrow.”

“Sure there are other big numbers we’d like to hit,” Tracy says, “and if we stick to our knitting and execute well we’ll achieve them someday. But we’ve never really said that the target is this number or that number.”

Questions:

1. Is there anything so unique about Dot’s business, or your business, that makes it impossible to apply these principles to your business?

2. Does your business operate so differently from Dot’s business that you are unable to maximize the return from your redi program?

3. Is there any doubt that Dot Foods will continue to re-invent itself and grow profitably, even as consolidation continues and Sysco builds out its RDC network?

As always, I welcome your comments.

By the way, Think Big, Act Small also contains a chapter about Sonic Drive-ins, and how they manage to balance short-term goals and long-term horizons. These lessons will probably apply to your business (and mine) as well. Check it out!

Franklin Foodservice Solutions has been helping manufacturers get more from their redistribution programs since 1996. E-Mail us (dave@franklin-foodservice.com) to receive a copy of our article “Does Your Redistribution Program Address These Realities?”

"Hard work spotlights the character of people: some turn up their sleeves, some turn up their noses, and some don't turn up at all." - Sam Ewing

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THIS MONTH’S FEATURE ARTICLE:
“Why Is It So Hard to Raise Prices?”

OK, gang – it’s audience participation time!

Having recently been involved in a couple of projects around foodservice pricing, I’m swimming in ideas about how manufacturers AND distributors can benefit from better price management practices. But I’m counting on you to help shape these ideas and set me straight where I may be getting off course.

I'm especially interested in hearing from you brokers and distributors, with the unique perspectives you bring. If everyone will put a few minutes into the cause, we can create a forum for sharing ideas, without giving away any secrets.

Here Goes:

IDEA #1: Distributors should embrace, not fight, manufacturer price increases! If he's adding a percentage markup to the operator, a distributor makes greater margin on higher prices. If he's making a flat "per pound" margin to a chain, he's no better or worse off when prices go up. If shelter and marketing funds represent the lion's share of distributor profit, they remain untouched or go up on a percentage basis. And if the manufacturer is raising all distributors' prices in a market, each distributor is in the same competitive position after the price increase as he was before the price increase.

BUT – we know it doesn't work this way, at least in most cases.

So the question is, why will distributors pass some price increases straight through to their customers, but fight tooth and nail to resist others?

IDEA #2: Distributors and operators can have issues with price increases on three levels – emotional, financial, and administrative. On an emotional level, some people treat price increases as a personal affront, without regard to the true financial impact on their businesses. On a financial level, operators and distributors may feel powerless to raise their prices in response to an increase, and therefore face either volume risk or a margin squeeze. And from an administrative standpoint, the distributor has to contact every operator who buys the line, and spend time selling prices instead of products and service.

So the question is, which of these three concerns is the biggest driver of resistance to price increases?

IDEA #3: The true volume risk from raising prices can pop up in several places…

-a distributor throws you out, because your price increase gave him a reason to shop around and bring in your competitor

-a distributor keeps your line, but decides to emphasize your competitor and/or his private label product

-major operators switch to a lower priced competitive product from the same distributor

-major operators move their business to another distributor, who offers competing products at lower prices (and the distributor loses more than just your volume)

-operators continue to buy, but raise menu prices too high, and consumers stop buying

So the question is, which of these scenarios has happened to you, and where do you find the greatest risk of losing business as a result of price action?

It's been written here and elsewhere that improving price management is one of the most powerful levers for improving your bottom line. I'm convinced that most manufacturers and probably most distributors are missing the boat because they are not disciplined enough in enforcing price actions. Does this ring true, or am I barking up the wrong tree??

I hope you'll email your reactions and additional thoughts about foodservice pricing, so we can share them (anonymously) in a future issue.

"Dave DeWalt is a very competent business advisor who adds value to his clients by his candor and thorough understanding of the foodservice business. He is unafraid to deliver bad news to management when appropriate and always provides several options as solutions to business problems."

– President, Major Foodservice Manufacturer

AND FINALLY, A WORD ABOUT COMMODITIES

In the foodservice business, we hear the word "commodity" tossed around regularly, as if everyone understands what it means. I'm not so sure we do.

In the truest sense, commodities are undifferentiated products which are purchased mainly on price, without regard to brand or manufacturer. But even the Merriam-Webster Dictionary seems uncertain, as shown by these three definitions:

1. "A mass-produced unspecialized product"
2. "One that is subject to ready exchange or exploitation within a market"
3. "Something useful or valued"

Huh?

It's easy to think of commodities as low-priced products (salt and cooking oil). But I'll bet those of you in the lobster and cooked prime rib business often feel like you're selling on price alone.

It's easy to think of commodities as low-value-added products (bacon and bread). But there's a high amount of processing that goes into Cooked & Sliced Turkey Breast and Assorted IW Danish, and it's fair to say that many operators treat them as commodities.

And it's easy to think of commodities as products with constantly fluctuating prices (ham and cheese). But Chicken Broth and Bread Crumbs fit the two criteria above, and are not priced based on "the ups and downs of the market."

Maybe the definition of "commodity" lies in the mind of the buyer, and is based on years of experience and tradition. Probably even the most sophisticated buyers and sellers would have a hard time articulating just what the word means. And certainly, it is in the buyer's interest to move as many products as possible into "commodity-world," where he holds all the cards.

If so, it's got to be up to manufacturers and distributors to exert more influence over how products are perceived. From product and package development that creates relevant points of differentiation, to pricing practices that align with brand positioning, there are always tools at your disposal to help keep your products from becoming commodities . . . whatever that means!

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