FOODSERVICE MARKETING INSIGHTS

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

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REDISTRIBUTION UPDATE:
"It's Getting Interesting"

Remember the days when we tried to understand the concept of redistribution? When we first started to think about the total cost to fulfill orders of various sizes, and see if redistribution was a feasible alternative? Or when we worried about losing the relationship with a distributor if he elected to buy through redistribution?

We've come a long way in a short time, and people who bash redistribution these days are about as rare as people who say "this internet thing is just a passing fad." But with the acceptance and growth of redistribution, we've encountered a new set of problems to worry about.

Sysco's Northeast RDC startup has gone pretty well, except they have had problems reporting their shipments to the OpCo's. As a result, tracking sales, funding programs, and paying Brokers/Agencies has become a challenge for some suppliers.

Empire Beef is re-focusing their redistribution program to emphasize suppliers who best fit their short shelf life/short lead time business model. As a result, some suppliers will have to scramble to hang on to the distributors Empire had been serving.

And distributors continue to insist that custom-label and deviated-priced products be available from their redistributors, putting manufacturers in a perplexing bind.

FOLLOWING ARE MY "TAKES" ON EACH:

Sysco will certainly get their act together on sales reporting. Their intent was to provide suppliers with visibility of demand throughout the supply chain, and I'm confident they'll get it right. Manufacturers will need to resolve their internal sales reporting issues and "get right" on program payments over the coming months. And the FSMA (Foodservice Sales and Marketing Association) suggests a common-sense approach for keeping Brokers/Agencies whole during this transition:

1. Calculate the average commission payment for the affected houses over the past 6 months, or the same period last year
2. Pay the appropriate Brokers/Agencies monthly based on this average
3. Reconcile the interim payments with actual volume once the data becomes available

You can see the entire guideline at their website http://www.fsmaonline.com

Empire Beef's retrenching underscores the importance of understanding the commitment all parties must make to have a successful redistribution program. It's great to offload the small-order customers to a redistributor, and even greater to pick up new business you could never serve by yourself. But if the situation changes, it's no fun trying to find an alternative source, or trying to handle them directly, or saying goodbye to the volume. Redistributor relationships and programs must constantly be nurtured to ensure their long-term success; too many manufacturers put their redi programs on "autopilot," then miss opportunities and deal with surprises when something changes.

When it comes to deviated-price business being handled by a redistributor, manufacturers are concerned about added cost as well as added complexity. We've written many times that cost savings via redistribution are the same, regardless of "what label's on the box, what customer's on the bill of lading, and what price is on the invoice." But on the subject of managing billbacks, redistribution clearly adds another layer to an already messy process, and could well add cost if it is not managed properly.

I'm in the midst of researching best practices in this complex area, and developing a viewpoint about how it should be done. Results will be shared with manufacturers at an Instill conference next month. If you have questions or comments in this area, please drop me a line; otherwise, stay tuned for further information.

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?"

"Courage is saying, 'Maybe what I'm doing isn't working; maybe I should try something else.'" - Anna Lappe

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THIS MONTH'S FEATURE ARTICLE:

"Anatomy of a Conflict"

We used to call them "Broker Conflicts." If we had a full line of frozen baked sweet goods, and a potential agency repped a line of frozen bread and rolls, he couldn't be our broker. If we had a line of pickles, and an agency's canned goods supplier also put up cheap relish, he would have to resign that line in order to take us on.

Over the past 25 years, however, as manufacturers merged and broadened their lines, the definition of a "conflict" has become very foggy. It's safe to say that the major manufacturers, whose product lines span dozens of categories and temperature classes, could no longer change representation without causing a major disruption if they continued to play by the old rules. As a result, many are more tolerant of agencies representing suppliers which in the past would have raised the "conflict" flag.

Today, manufacturers and their agencies are dealing with different types of conflicts. Now it's less about competing product lines, and more about geographic territories. Years ago, Gordon Foodservice began crossing from Michigan into Ohio, Indiana, and Illinois, with great success. Every operator who switched from his local distributor to GFS took sales and commissions from a local agency and switched it to a Michigan-based agency. We see the same phenomenon in the East, with distributors from Philadelphia, New Jersey, and New York criss-crossing into each other's home territories every day. Other markets, especially those near state borders, certainly experience this as well.

And as super-distributors expand into new markets, they often put pressure on their "home town" agencies to open offices in the new territory, to ensure they are getting full support. This creates a new kind of conflict for the manufacturer, who then may have to choose between a long-time loyal agency, and showing support for an expanding super-distributor.

Then we have Sysco and others looking into the use of “In-house Brokers” to represent their Private Label products. As if the pressures of private label (whether you pack it or compete with it) weren’t strong enough, this type of change would set off a whole new set of conflicts.

None of this is intended as a slam at super-distributors; they’re acting in their own self-interest as indeed they should. But it could well be that the days of the traditional “broker network” model are numbered, and manufacturers and their agencies should start coming to grips with the new realities.

Some have speculated that regional or even national agencies will emerge for foodservice as they have for the retail grocery business. Others suggest that agencies will need to become more closely aligned with specific distributors, perhaps signaling that manufacturers will need to support several agencies in a given market.

It’s hard to say where it is all going, but the winds of change are certainly blowing. And the ability to develop a new way of seeing the marketplace will determine who benefits from, and who is a victim of, these new “conflicts.”

“Dave is very quantitative and understands how and where manufacturers, distributors, redistributors and operators make money so he offers solutions that are balanced and have a high probability of success because all stakeholders are considered in the solution.”

-President, Major Foodservice Manufacturer

AND FINALLY, A WORD ABOUT “MISDIRECTED ENERGY”

Tim McMahon published the following some time ago. I think it’s a great reminder for salespeople and marketers to keep their focus more on their customers, and less on their competitors:

Damon Runyon once said, “The race is not always to the swift, nor the battle to the strong – but that’s the way to bet.” I love that. It really speaks to the competitive nature of human beings.

We often resort to sporting, or worse, battle analogies to characterize business behavior. But, a wise man in my past once told me "in football and boxing and other forms of war, it really is YOU vs. THEM and people do take sides as spectators and rooters. But it just ain't that way in the supermarket, fella … the people aren't rooters and spectators … in this game your real competition is consumer resistance – or consumer apathy – or consumer attraction to another brand." Those are the words of Wally Armbruster, former creative chief at the famed agency, D'arcy McManus.

Wally speaks to the problem of misdirected energy better than anyone I know. In the food business today we get all caught up in the battlefield parlance. It clouds our minds and makes us talk funny - in jargon reserved for clowns. We compare our performance to the rest of the sector and we focus on gaining synergies. Our products are platforms and worse, our people become resources.

Time out. If you find yourself talking like that you will find yourself making war on the competition rather than love to the customer. There are usually significant casualties in war, but love making … that creates quite a different outcome.

Competitive analogies stir the spirit … so if you must use them, stick to the words of Runyon because you are a winner when you are swift to satisfy the consumer and that will build a powerful relationship that will deliver competitive advantage. You can bet on it.

Tim McMahon runs McMahon Marketing, a firm dedicated to keeping and creating customers. He has 25 years of food marketing experience. You may contact him at www.mm-nyc.com

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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