FOODSERVICE MARKETING INSIGHTS

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

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REDISTRIBUTION UPDATE:
"Don't Overlook the Revenue Side"

Last month, we talked about the mistaken attitude that special-priced Private Label or National Account business should never be serviced via redistributors, because "the margins are too thin." My point was that redistribution offers the opportunity to avoid paying high logistics costs for small orders, regardless of the label, price, or whose name is on the invoice.

This month, let's look at the other side of the equation, which is the impact on the revenue side of your business when distributors buy through redistribution. This often-overlooked factor can have a negative impact on your bottom line.

Here's why:
Hopefully you have a well-designed price bracket structure, and are enforcing it by pricing each distributor based on his actual order patterns. If so, you are earning a "bracket premium" to help offset the high cost of filling small orders. If these high-cost, high-price distributors begin to buy from a redistributor instead, you eliminate your high freight cost, and replace it with your redistributor allowance. But you also reduce your revenue basis on that volume to your Truckload price, FOB price, or however you price the sale to the redistributor. This "revenue forfeit" should be a part of any redistributor program analysis.

If you have a lot of contract-priced business which is reconciled via distributor billbacks, redistribution can create another type of margin problem. It's a little tricky to explain without a spreadsheet, but the point is this: the distributor will bill you back based on the price he paid for the product. If he pays your highest bracket price to buy from a redistributor, he'll bill you the difference between that price and the contract price. But since you sold the volume to the redistributor at Truckload price, you're out the difference between your highest price and your Truckload price, in addition to the planned billback amount.

All of this is not to say that "special priced" businesses shouldn't be served by your redistributor; it's just that there are a lot of nuances which must be understood before you make the decision. Rather than rushing to judgment about what business should or should not be served by redistribution, manufacturers need to take a hard look at all of the revenue and cost factors, to arrive at the decision that best serves your business.

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?"

"You don't need to know anything in order to have an opinion."
– General Tommy Franks

THIS MONTH'S FEATURE ARTICLE:
"Is This Any Way to Run a Business?"

Imagine the following: Mark, Allright Foods' National Accounts Manager, brings in a new product idea from a key chain account. After some cursory analysis by Finance, Mark is given a hesitant "OK" to proceed with product development. Mark grabs a cocktail napkin and writes up a formula to the best of his ability, and faxes it to Al, the Plant Manager.

Al does his best to draw up Product Specifications, a Bill of Materials and Production Process, based on his interpretation of Mark's "formula." The information goes into the system, and a production run is scheduled.

As products roll down the line, the QA inspectors realize that no two look alike. They compare what they are seeing to the murky spec sheets written by Al, and scratch their heads in confusion. They leave voicemails for Mark and send faxes to the chain and its distributors in an attempt to make sense out of what they're seeing. But the products keep coming, so they diligently sort them into bins labeled "OK to Ship" and "Too Large - Rework."

During the production run, Jimmy the Distributor Buyer hovers over the line, sneaking products into his pockets. He occasionally pulls a handful out of the "Rework" bin and tosses them into the "OK to Ship" bin.

No one keeps track of how much is produced, or whether the product quality and sales volumes match expectations. "We'll figure all that out when our customers report back to us," says Al.

This ridiculous example is really about the way many foodservice manufacturers manage their trade spending, contract pricing, and billback processes.

The "new product idea" is the proposed program.

The "formula" is Mark's documentation of the program.

The "specifications" are the program details loaded into the mainframe system.

The "inconsistent products" coming down the line are the volume reports and billback claims coming from distributors.

The "QA inspectors" are the hard-working administrators charged with approving billbacks and program claims, or reconciling those that don't match up with "what's in the system."

And Jimmy is Jimmy, whose cooperation and support are critical to the entire process, but whose boss rewards him for taking advantage of Allright Foods' slipshod operation.

WHY DOES ALLRIGHT FOODS TOLERATE CHAOS IN THIS PROCESS, WHILE THEY WOULD NEVER TOLERATE IT IN THEIR PLANT?

Despite the huge number of dollars at stake, I believe manufacturers look the other way because it is so darned hard to get a handle on what is going on. The process involves a very long and complex set of activities, spread across many different departments and geographic areas. The many "moving parts" make it difficult for anyone to understand, let alone manage, the entire process. In addition, many manufacturers have little faith in their ability to collect improper funds from distributors, who are all too willing to use the weapons of deductions and threats. As a result, while manufacturers have well-founded fears that they are leaking dollars through this process, they feel powerless to attack the problem.

And if you're not depressed enough, the whole thing depends on distributors' willingness and ability to provide timely and accurate volume and billback information. While manufacturers are "trying not to think about it," distributors are becoming ever more sophisticated and aggressive in maximizing their income from billbacks – perhaps even to the point of intentionally exploiting weakness in this area.

SO WHAT IS THE ANSWER?

Over the past 5 years, a lot of software companies have descended on the foodservice channel, offering "contract management solutions." While they promise to deliver accuracy, speed, and savings, many manufacturers have experienced frustration, disillusionment, and even revolt as a result of implementation projects!

Of course, automating lousy processes only accelerates your ability to get lousy results. Until you design a workable process and assign clear accountability to the people who must make it work, billback management is likely to remain a mysterious black hole.

We find that there are very few people who can articulate their company's entire process from contract request through billback approval. Those who invest the time and energy to thoroughly document what is going on are able to highlight weaknesses in the process, and see where it is failing to serve its users. The best processes provide ease of use for Sales, tight control for Finance, and useful reporting for Management, resulting in newfound confidence as well as improved profitability.

Finally, it must be recognized that no amount of process reengineering or software can replace knowledgeable people. Successful foodservice manufacturers make sure their sales and internal support people have a thorough understanding of the customers, programs, and process, as well as their roles in making it all work, before they worry about software.

"Dave has helped improve both our top-line and bottom-line results. He is versatile, efficient, and brings a positive attitude that rubs off on our people. Best of all he is a man of genuine integrity."
-CEO, mid-sized foodservice manufacturer

AND FINALLY, A WORD ABOUT BASEBALL AND BUSINESS

I occasionally look in on a newsletter published by Bruce Merrifield (www.merrifield.com), which is addressed to wholesale distributors but often applies to food manufacturers as well. Bruce recently wrote about the lessons learned from Game 7 of the Red Sox/Yankees series, in which Sox starter Pedro Martinez was left in the game to blow a 5-2 lead in the 8th inning, ultimately costing the Sox the series. His observations were so good that I want to share them with you.

Bruce drew three lessons from the experience, which should resonate with business people in all industries:

1. "Historic, emotional baggage triumphs over current strategic sense." It's far easier to keep doing what we've been doing than to make the big decision based on information that is staring us in the face.
2. If you are not an "anticipatory manager" or even a "reactive manager," you will end up being a "crisis mode manager." Sox Manager Grady Little did not anticipate his ace getting tired in the 7th, failed to react to his struggles in the 8th, and was left with a crisis when the Yankees tied the score.
3. When the pressure is on, key players' egos will force them to "suck it up and try harder," rather than admit that there are fundamental problems which prevent them from achieving their goals. There was no chance of Pedro wanting to hand over the ball and walk off the mound in Yankee Stadium. Likewise, when asked to step up and achieve higher numbers, we all salute and go work harder (for a few weeks.)

The bottom line is about being honest with ourselves regarding the situation we find our business in, and having the strength to make big decisions to change our fortunes. Much easier said than done, but worth repeating!

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