Foodservice Marketing Insights

presented by Franklin Foodservice Solutions

YOUR FREE MONTHLY NEWSLETTER

Sent Monthly to Over 600 Subscribers Worldwide

Volume 6, Issue 10

October, 2008

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Before you jump into the reading, I want to share something I just discovered while searching for an article on the NY Times website. Following are three article headlines or first sentences:

- **"FTC Urges Steps to Save in Food Distribution"**
- "The National Association of Food Chains convention opened here today on a keynote of cutting distribution costs..."
- "We must find ways to lower cost of food distribution," he said. "Research is an effective way to help attain that important goal..."

So what's new, eh?

These articles are from April 15, 1920, October 10, 1939, and January 10, 1956. I also downloaded a 1914 article decrying the fact that despite everything else being "thoroughly modern," food distribution practices were outdated! If it's as interesting as I think it will be, I'll provide more next month.

Meanwhile, take comfort in the fact that our challenges are really nothing new...

Thanks for reading, and as always, let me know what you think.

Dave

"Men can live without air for a few minutes, without water for about two weeks, without food for about two months - and without a new thought for years on end." - Kent Ruth

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"Redi - It's Not Just for Small Customers"

Back in the 80's, when the concept of redistribution was picking up steam, manufacturers generally understood redi to be a good way to serve small distributors. Manufacturers saw that redi gave them access to a lot of customers who would have trouble meeting their minimums. Redis opened up a whole world of hidden distributors who rarely got called on, either by because it was too costly in relation to the volume opportunity, or because they were unknown to the sales force.

The idea was that the big customers would always buy direct, and the small customers would always buy through redistribution. It was good.

Then with experience, we began to understand that it was not so much the size of the customer, but the size of the order that drove high costs. Some big name, big volume distributors were in the habit of placing frequent, small, high-cost orders with their manufacturer suppliers. Manufacturers who yielded to demands for "Truckload-only" pricing made this an easy decision for their distributors.

But as some manufacturers caught on, they adjusted their pricing practices, raised minimums, and/or convinced these customers to change to redi service. We still wanted individual customers to always buy direct, or always buy through redi, to help simplify inventory management. As we approached big orders direct/small orders through redi, the manufacturers' total cost-to-serve was optimized.

Or was it?

A few of my manufacturer clients are beginning to look at their redi strategies in a new light. At its root, a comprehensive logistics strategy should have the <u>highest cost</u> orders served by redi, and the <u>lowest cost</u> orders served direct. And there are a lot of different ways to peel that onion, and slice it, and even dice it!

Three examples illustrate my point:

1. What if you decided to only offer direct service to customers within a 300 mile radius of your plants and DC's? Any distributors falling outside that "direct service zone" would source your products from a redistributor.

2. What if you pulled out of your mixing centers, and only served customers from your nearest plant, and only with the products produced there? Every customer would source the rest of your product line via redi. This might require the manufacturer to re-think and change his decisions about what products are produced at which plants.

NOTE: In 1996, I helped a manufacturer move from "direct-from-plant" service to a mixing center model. It added some cost (which we recovered by adjusting the price bracket structure) but it made life a lot easier for the customers. It was the right thing to do. Idea #2 flies directly in the face of this project, so how can it also be a good idea?

In August 1996, diesel was $1.18/gallon vs. $3.66 today. And redi was not as well-established as a sourcing option back then...

3. What if you only held inventory on your fastest-moving items, and put everything else in your redistributor's hands? Once again, your customers would split their sourcing between your plants/DC's and your redistributor.

None of these are easy, and some may require you to look at costs all the way back to your production lines. Ideas #2 and 3 would require your customers to split their orders between direct and redi. But chances are a lot of them are already doing so, for their own reasons. And of course, none of this can happen unless your redistributor buys into the strategy and is able to support it effectively.

But with some decent logistics cost data and a little effort, you should be able to discover some new opportunities in your own business.

"I don't paint things. I only paint the differences between things." - Henri Matisse

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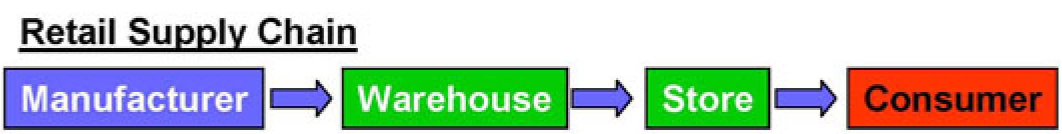
"Retail vs. Foodservice - Round 117"

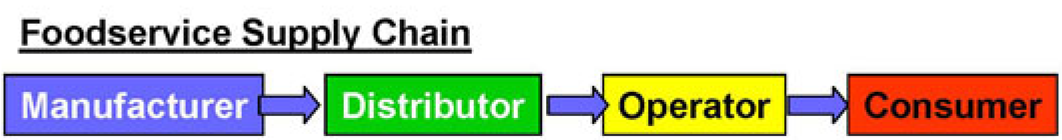
Despite the ascension of the foodservice industry to equal the retail grocery industry in volume, many foodservice veterans lament that their executives with retail backgrounds "still don't get it." And with broker agency consolidation and regionalization coming to pass in foodservice, the debate is renewed over whether Foodservice is truly much different from Retail, or pretty much the same only 10 years behind.

As I've kicked this around with clients and colleagues, a few notions have surfaced which I find very interesting.

If they're obvious to you, my apologies! Everyone else might find them useful in helping to explain why things are the way the way they are in our business.

The first is about the flow of products down the supply chain, and how costs are viewed differently among Retail and Foodservice participants.

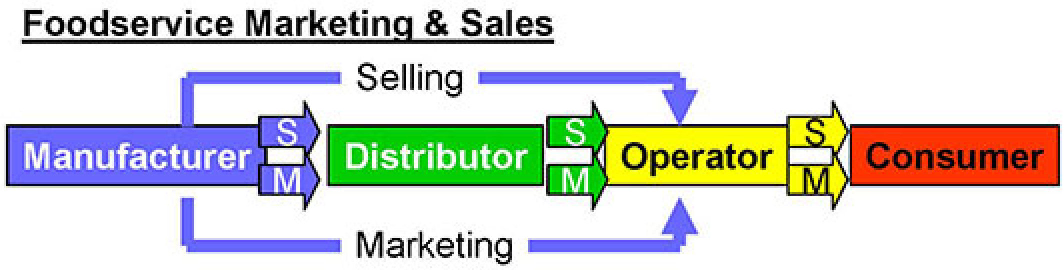




Implication: In Retail, the manufacturer's direct customers probably operate their own warehouse networks. These warehouses are serving their own organizations, so inbound and outbound logistics costs "stay in the family."

But in Foodservice, the manufacturer's direct customers are distributors, who serve operators who are NOT part of the same organization. Anything the manufacturer does to increase distribution costs must be absorbed, or passed downstream to a customer who has other sourcing options. Neither is a good thing.

Now let's look at the major Marketing and Sales activities that take place among the channel participants:



Implication: Notice how in Retail, the manufacturers (especially the national brands) market to the Consumer. This bond offsets a lot of channel friction, and creates incentive for the retailer to continually stock and promote the manufacturer's product.

But in foodservice, there is very little marketing activity between manufacturers and consumers; this is mainly due to the lack of brand presence in foodservice operations. The notable exceptions are soft drinks and tabletop items such as ketchup and sauces. As a result, distributors and operators exert much more influence over what products ultimately reach the consumer.

These differences may appear subtle, but they help explain a lot of the goings-on in our business which seem to perplex our Retail brethren.

"Wond'ring Aloud"

WHY do manufacturers beat up their broker agencies for being "too influenced by the distributors," then seek distributor input when considering a change in representation?

WHY do brokers who are seeing cuts in commission rates still try to (or pretend to) provide the same services, instead of working with the manufacturer to determine what services to cut?

WHY do distributors acknowledge that manufacturer income drives their bottom lines, but continue to kick around their suppliers while bending over backward for the smallest operator customer? When manufacturers (ahem) "buy marketing programs," don't they become big customers?

WHY do operators allow their front-of-the-house employees to let new customers stand around, rather than at least greeting them and promising to seat them shortly?

WHY do consultants like to ask so many questions?

Comments? Questions? Further Thoughts? Criticism? All are welcome at **Tell Dave**

My Website: **Franklin FS Solutions**