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:
"Redi Done Right!"

When negotiating redistribution programs, manufacturers are often asked to consider the "marketing value" of participating with a redistributor. This figure is a reflection of the growth potential represented by making your products available to a wide range of distributor customers with no minimums, weekly deliveries, and all of the other benefits of redistribution. Most manufacturers readily acknowledge this value, and build some "marketing dollars" into their redistributor allowance programs.

It's also true that most manufacturers fall far short of extracting all of this marketing value and taking full advantage of the growth potential offered by redistribution.

For starters, all of the manufacturers I work with have one person whose job it is to manage the redistribution program. Invariably, these good people are also tasked with managing a sales region, buying groups, military, chains, schools, club stores, or other business segments as well. I often wonder what a manufacturer could accomplish with a full-time Redi Program Manager. Here's what my "RPM" would do:

1. Maximize Efficiency

   -Make sure redis are picking up as much as possible at manufacturing plants, not distribution centers

   -Constantly look for opportunities to take and ship orders in full pallet quantities

   -Maximize the use of EDI, EFT and other technology to streamline redistributor order management

2. Continually build volume

   -Meet with all redis on a quarterly basis to establish new customer and product targets by Region; review and correct any internal issues which are holding back growth

   -Review business gains and losses against target accounts

   -Coordinate ongoing work-withs among redi sales people and the company's Regional Managers and brokers

3. Utilize IT resources to convert the zillions of bits of redi sales data into useful information to drive the business

   -Monitor customer mix to make sure small-order customers are buying from redistributors, and large-order customers are buying direct

   -Analyze category penetration by customer to identify and plug distribution gaps

   -Track volume growth and decline by customer, just as with direct-buying customers, and implement appropriate action plans

4. Monitor internal accounting practices

   -Audit redistributor pricing and promotion pass-throughs to ensure accuracy

   -When necessary, act as an advocate for new processes and systems to provide an accurate picture of the impact of redistribution

   -On an annual basis, review all redistributor programs against assumptions for cost offsets and marketing value, to ensure that programs are kept up-to-date and fair for all parties

Yes, it sounds like a full-time job to me. But instead of a "catch as catch can" approach, wouldn't this be a great way to make sure you're getting true Marketing Value from your redistribution program?

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 really can't stimulate demand as a foodservice distributor."

– John Heinbockel, Goldman Sachs Analyst, in The Wall Street Journal (September 8, 2004)

THIS MONTH'S FEATURE ARTICLE:
"Short-sighted Accounting Practices Drive Long-Term Problems"

Let me start by saying I really don't want to pick on the Accounting and Finance people again. Most (but not all) of them are terrific to work with, and I've had the chance to meet some really brilliant folks who "get" the foodservice business and make great contributions to their companies' success. And yes, the numbers guys are an easy scapegoat for Marketing and Sales people when things don't work out the way we'd like them to.

That said, it's amazing how companies doggedly stick with accounting practices which consistently force bad business decisions. Here are three examples:

EXHIBIT 1: A client company competes in a category with higher-priced value-added products, as well as lower-priced commodity products. While the company excels in producing and marketing top-quality goods, the market is of course moving toward the commodity product lines, where manufacturers duke it out strictly on price. The competition uses high-volume, low-cost production lines.

Our client company has separate production lines for their value-added and commodity products. But the "commodity" line is newer, underutilized, and saddled with a very high overhead allocation, while the "value-added" line is fully depreciated and runs near capacity, with a very low overhead allocation. As a result, any attempt to meet competitive prices on commodity products produces an unacceptable margin on paper, effectively tying the company's hands and limiting their ability to crack the market.

EXHIBIT 2: Many years ago, I worked for a foodservice manufacturer who had mastered the art of "sandbagging," at least in the eyes of the Marketing and Sales people. Here's how it worked: the Operations guys put very conservative throughput and cost numbers into the plan. Finance let them do it, because beating the plan in this area was a much better bet than beating the plan in Sales volume and Marketing costs (no argument here!) The positive variances were held "in the bank" until year-end, then rained down in the Period 12 P&L to show a surprisingly good result for the year.

It was great fun, but it came at a cost. Throughout the year, our numbers said we were behind on the profit plan, so we naturally made decisions to cut spending and minimize risk. We'll never know what long-term growth opportunities were sacrificed in the name of achieving an artificial short-term number (as if the pressure to do so wasn't already high enough.)

EXHIBIT 3: On a broader scale, we see that current accounting systems and conventions fall short of providing useful information in several key areas. Everybody knows that excessive numbers of slow-moving products drive costs throughout the supply chain, but who can quantify the damage? Everybody knows that when customers buy through redistributors, the company saves on freight, warehousing, and order management costs, but where are the savings captured? And everybody knows that "special pricing" programs depress revenue, but nobody calls out the cost in dollars.

It's ironic and unfortunate that most businesses are run "by the numbers," while the people making decisions often don't trust the numbers. There is great potential in developing new accounting processes and systems that better reflect what's going on in the business, and therefore support better decisions.

AND FINALLY, A WORD OF GRATITUDE

Perhaps the biggest difference between working for a consulting firm and having my own practice is the freedom to eliminate the line between "clients" and "friends." I like to think that my relationship with the people I serve goes beyond our professional involvement, and I value highly the friendships I have made as a result of my business.

I also feel that contrary to popular belief, this results in better business solutions than might come out of a strict "consultant/client" working relationship, where nothing is ever said without first going through the "risk filter."

Some of you know that my parents and I each own homes in Punta Gorda, Florida. When they took a direct hit from Hurricane Charley last month, we had to put everything on hold and join the massive cleanup effort. While a lot of property was lost, we feel fortunate that no one we know was hurt.

When local cell service was restored after a few days, the first messages I picked up were from "clients" expressing concern for my family and our safety, wishing us well in our efforts, and reminding us that it was OK to be away from the job for a while. To say that we were touched and encouraged would be a massive understatement.

So this is my word of gratitude to those who called or emailed, as well as to all of the people I work with who are much more than clients. Thanks from the bottom of my heart; I look forward to seeing you again soon!

Also last month in this space, I wrote about "share of stomach", using simple math to quantify (in calories) the daily demand for food in the United States.

A few weeks ago, the Financial Times published an article examining the food industry's role as a cause or cure for the obesity epidemic. To my surprise, they provided the "supply" side of my equation, citing daily US food production and imports as 3,700 calories per capita. If we each need 2,500 calories per day (a generous estimate), it's easy to see why our business is so competitive, as well as where our extra pounds come from!

On a more serious note, it's easy to wonder why there are millions of people in America who can't get enough to eat. As I did in my inaugural newsletter one year ago, I encourage you to talk with America's Second Harvest about turning your company's unused production capacity into food for hungry people.

With the quantity of food available for donation constantly shrinking, America's Second Harvest has developed groundbreaking programs for manufacturers who process commodities for the food bank network; please call or email me if you want to learn more.

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