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:

"Special Prices, Special Challenges"

Many of my clients continue to struggle with the issue of managing special-priced products via redistribution. Whenever custom-label products flow through redistributors, the formula for understanding revenues and costs gets more complicated for all parties. When national-branded products and contract prices are involved, it can get perplexing and downright frustrating.

The use of customer labels and contract pricing as a means of securing major end-user accounts will continue to grow. As this becomes a more significant proportion of a distributor's volume, he will put pressure on his redi to bring in these products in support of "one-stop shopping." Manufacturers and redis will need to come to grips with this challenge.

While I'm still searching for the perfect formula, here is an attempt to clarify the issues:

For starters, we need to separate "cost avoidance and redi allowance" from "revenue basis and billbacks."

The manufacturer's cost avoidance picture is the same regardless of what label's on the box, or what price is on the invoice. Therefore, I disagree with the sentiment that "we can't afford to pay redi allowances on this business," which is a common theme whenever these issues arise.

Manufacturers do have a legitimate concern, however, regarding price and billback issues. Let's assume a product has an FOB plant price of $10.00, and a highest bracket delivered price of $12.00. To secure business with a major contract feeder, the manufacturer has agreed to let the approved distributors bill back to a price of $9.00 on volume sold to the contract feeder's operating units.

On a direct sale to the distributor at the highest price, the manufacturer earns $12.00 per case. On the volume sold to the contract feeder, the distributor bills back $3.00 per case, so the manufacturer nets $9.00, as planned.

If the business flows through a redi, however, the picture changes. The redi will probably buy at the FOB plant price of $10.00, and sell to the distributor for $12.00. On the contract volume, the distributor will bill back $3.00 to the manufacturer to get to his $9.00 contract price. But because the manufacturer only realized $10.00 revenue, he will only net $7.00, far below his planned price.

From the redistributor's viewpoint, these programs can pose risks as well. The redi assumes a certain margin on the sell vs. his cost, in addition to redi allowance, to make money. Custom products with flat bracket pricing and contract pricing schemes all threaten this margin.

I have seen many attempts and had endless discussions regarding who should bill back whom and at what prices in order to keep everyone whole. At present, however, it appears that there will always be margin slippage, and the real issue is determining who should bear that cost and in what proportions.

If you have opinions or ideas about this issue, let me know and we can share them among Foodservice Marketing Insights readers. Otherwise, I'll continue to chip away at this and will have more to say in a future issue.

Franklin Foodservice Solutions has been helping manufacturers solve the redistribution puzzle since 1996. Visit our website **(www.franklin-foodservice.com)** to download a copy of our article "Does Your Redistribution Program Address These Realities?"

"Character cannot be developed in ease and quiet. Only through experience of trial and suffering can the soul be strengthened, ambition inspired and success achieved." --Helen Keller

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THIS MONTH'S FEATURE ARTICLE:

"Welcome to the Real World"

Sales Managers and brokers are sure they work in the Real World. Operations guys in the plants and warehouses work in the Real World. Marketing and Finance? Yes, they have their own Real Worlds as well.

Once during a test run of a new product, a supervisor picked one off the line, turned to me and said "I'll bet these will sell themselves!" He was justifiably proud of what his Real World had accomplished, but I wondered if he would like to hear a sales person say "I'll bet these make themselves!"

All of this is meant as a reminder of the vast range of perspectives held by the many different people in our industry, and even your own company.

More than once, I've had the opportunity to be involved in the rollout of new ERP system. It's a rare chance to become immersed in the minutiae of the IT Real World, and all of the behind-the-scenes stuff that it takes to run a business. It is often the case that we go into a meeting about trade or pricing and come out wondering what language was being spoken by the IT folks. Too often, it is not the "language of the business," at least as spoken by Marketing and Sales.

While IT-speak is no doubt a necessary tool to operate in their Real World, it doesn't translate well for the rest of us!

That said, are the techies any more to blame for failing to learn our language than we are for failing to learn theirs?

Then last week I sat in a meeting with a venture capital/turnaround group that makes investments in foodservice manufacturers. I heard them talking about industry issues like overcapacity, trade spending, and growth from the perspective of THEIR Real World – and again heard a totally different language.

My point is that it is important to recognize and respect the differences in perspective which we encounter each day. No one, it seems, has the luxury to "walk a mile in the other guy's moccasins" any more, but that doesn't mean we can't take time to try to see our business from another perspective.

Like a visit to a foreign country, our time spent dealing with other departments is enhanced when we take time to learn a little bit of the language, and become acquainted with the other guy's Real World.

AND FINALLY, A WORD ABOUT "GRAVITY"

I read once that the Saturn rocket booster burned something like 50% of its fuel to lift the Apollo astronauts the first 1000 feet on their way to the moon. It's a great metaphor for the immense amount of energy it can take to overcome an organization's inertia at the start of a project, and get it moving in the right direction. Once we've escaped the gravity of the old ways and have people working toward creating a new way, considerably less energy is required to keep things moving.

I've occasionally found that it can also take a huge input of energy to go the "final 1000 feet" and bring a complex project to completion. This is when we get bogged down in the details and "what about" discussions that string everyone along well beyond the planned end date. This is in stark contrast to the astronauts gliding to a landing under parachutes or in a shuttle.

Perhaps the difference is that on a space mission, the final 1000 feet is a return to home, and the gravity that was overcome at launch is now working in the astronauts' favor. On a business transformation project, the final 1000 feet is the ultimate commitment to a new world, with all of the uncertainty that it entails.

So managers who are leading change projects are well-advised to plan on expending a lot of energy at the end of a large project, as well as at the beginning. And the best managers will ensure that everyone can see and feel the benefits of the end state, so that it creates its own gravity field and helps to pull the project to a smooth landing in the new world.

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