Franklin Foodservice Solutions
Practical Solutions — Honest Results

FOODSERVICE MARKETING INSIGHTS

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

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REDISTRIBUTION UPDATE:

"Your Costs Don't Care What Label's On The Box"

When discussing redistribution opportunities with manufacturers, I often hear things like "we can't afford to put our national accounts business (or private label business) through redi because the margins are too thin." This is an understandable attitude, because the redi allowance cost is very easy to identify and track, and at first blush may appear unreasonably high.

Of course, the only way to define "too high" is in comparison with your current costs of serving the business directly; these costs are considerably more difficult to identify and track.

Some manufacturers make the mistake of viewing redi allowances as 100% incremental cost. Others understand that redistribution provides relief in logistics and order management costs, but also can become misled if they compare their redi allowance to their company-average freight cost.

What is needed is a thorough understanding of your actual logistics and order management costs for the business you are considering putting through redistribution, not your company average.

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When these costs are spread across a 2,000 lb order they yield a very different picture than when spread across a 20,000 lb order. Because a lot of national account, private label, and other specialty business goes out in small orders, it is critical to isolate and understand your actual current costs before dismissing the redistribution option.

You see, logistics and order management costs "don't care" what label's on the box, what customer name is on the bill of lading, or what price is on the invoice. They flow by the pound or by the order, and can be reduced or eliminated via redistribution regardless of the type of customer being served.

Once you have calculated the cost impact of putting a piece of business through redistribution, you must also turn your attention to any special pricing arrangements, and how they will be impacted by redistribution. That's a topic for a future issue.

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?"

"If you're trying to get out of a hole, the first thing you have to do is stop digging." - Unknown

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THIS MONTH'S FEATURE ARTICLE:
"Why do So Many Mergers and Consolidations Fail to Deliver?"

Whether you've purchased a smaller business or are merging the operations of existing divisions, chances are you've been involved in a Business Consolidation project. While it is popular to speak about "gaining synergies" and "improving value to customers" as a goal of consolidation, too often the business results are a major disappointment for shareholders, management, and customers alike.

In our experience, there are three common causes for these failures:

1. Imprudent Cost Cutting
2. Leaving Customer Benefits out of the Equation
3. Relying on Operating Managers to Carry Out Change

Unfortunately, "gaining synergies" is often code for "extracting as much cost savings as possible, as quickly as possible." Certainly it is wise to eliminate redundancy and reduce costs whenever businesses are consolidated. The trouble is, both the pace and the magnitude of cuts can be driven by unrealistic promises and expectations at the Executive/Board level, rather than the realities of the marketplace. Hurried cost-cutting usually results in disruption of day-to-day processes and customer service, to the long-term detriment of the business. Since mergers and consolidations are long-term strategies, foodservice manufacturers need to take the time to implement cost reductions wisely and at the appropriate point in each project.

Second, we find that the impact of consolidation on customers is at best an afterthought, and at worst is misrepresented. Most distributors would probably be satisfied to have no impact from a manufacturer consolidation; in fact, poor execution often results in service problems and reduced customer satisfaction, not the improvements that are promised. Let's face it – just telling the distributor he's got to change a supplier's setup in his systems is "strike one." If you follow that up with confusing communication, poor service, and slow responsiveness, you're dangerously close to striking out. Good consolidation projects result in a smooth transition for distributor and operator customers; the best projects offer business benefits for them as well as the manufacturer.

Major acquisitions or consolidations are planned by bankers and large consulting firms, who paint the picture of how the new organization should operate, then leave the employees to work out the details. The third way that companies err is saddling their management team with responsibility for executing the consolidation, as well as running their businesses and achieving their numbers. This is akin to attempting mid-air refueling on an airplane while it's engaged in a dogfight! The predictable result is coming up short on both ends.

Franklin Foodservice Solutions has extensive experience with the "nuts and bolts" of consolidating foodservice manufacturing businesses. We help our clients stay focused on their business, while we roll up our sleeves and help them consolidate:

-policies and business processes
-pricing policy and price list structure
-broker representation and rates
-distribution strategy
-product line rationalization
-internal and external communication

Please contact me **(dave@franklin-foodservice.com)** if you'd like to receive more information, or explore how we might help with your next business consolidation project.

"When you need some clear thinking on a multifaceted foodservice problem, Dave's your man. He works up winning solutions by crystallizing the real issues based on his 'in-the-trenches' understanding of how it all works."

-CEO, mid-sized foodservice manufacturer/distributor

AND FINALLY, A WORD ABOUT OPERATOR COMPLIANCE PROGRAMS

As manufacturers continue to increase spending on headquarters programs for contract feeders and large-leverage operator accounts, compliance at the unit level becomes a critical issue. While you and the HQ Buyer agree to maximize penetration of your approved product line (and maximize the Buyer's program income), some of the distributors and unit operators may have other ideas.

Whether it is a result of inertia or malice aforethought, these decision-makers can put sand in the gears and prevent you from achieving your goals. As a result, your volume will fall short of what you told your boss, and the Buyer's program income will fall short of his expectation. Neither of these is a good thing!

We have seen a solution, and it's a thing of beauty. Imagine your brokers and sales managers accessing a secure website, and seeing all of the account's units in their market. As they click on each unit, they see all of the non-compliant competitive products (and their volumes and prices) being sold there. Better yet, the broker uses this site to report his progress in calling on and converting the business.

This is exactly the kind of tool that enables foodservice manufacturers to go the last yard and ensure that they maximize the return on operator program spending. A small company has developed this capability, and quietly provided it to several manufacturers who are already reaping the benefits. If you'd like to learn more about it, please send me an email and I'll hook you up!

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

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