

FOODSERVICE MARKETING INSIGHTS

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From Franklin Foodservice Solutions and Dave DeWalt

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REDISTRIBUTION UPDATE:

“RDC #2”

My friends at Cleveland Research Company (www.cleveland-research.com) continue to do an outstanding job of tracking and reporting on Sysco. Cleveland’s reports are primarily for the benefit of the investment community. But because they are written by people with a deep understanding of the foodservice business, I find them to be a great resource for foodservice professionals in general.

Below is an excerpt from a recent report, selected because it focuses on Sysco’s RDC initiative. I’ve added a few comments at the end.

SECOND RDC ON SCHEDULE TO OPEN IN APRIL, RAMP SHOULD BE MEANINGFULLY BETTER.

Construction on RDC number two is nearly complete (should be finished in the next few weeks), and we have learned that the project is firmly on schedule to begin initial outbound shipments from the facility on April 7. Hiring has already begun, and the first group of suppliers will begin ramping and sending product to the RDC at the beginning of January.

The following are three key differences between the Southeast RDC in Florida and the Northeast facility in Virginia.

1. Smaller facility, fewer OpCo's.

The most visible difference between the first and second RDC is that Florida will be a much smaller distribution center (500k sq ft compared to 800k plus) servicing fewer OpCo's (5 versus 14, although these Florida OpCo's are some of the largest producers in the company). SYY has picked up a number of efficiencies to allow for a smaller footprint, but the company has also trimmed down its total estimate from 7-9 RDCs in the network to 5-7.

2. Ramp should be faster.

SYY missed its original opening date for the first RDC and then ran into a number of glitches in the first 6-12 months (data was not clean, scheduling was off, and the system ran into volume resistance). That said, the company had to put the project on hold for a stretch to work out the kinks, and it took meaningfully longer than expected to ramp from initial shipments to full capacity (this took the better part of three years beginning in August 2004).

Not only will all these learnings be applied to the second facility, but vendors will come on board quicker (many of which are already in the first RDC), and all products will ramp at the same time (whereas the cooler, freezer, and dry ramped independently the first time). We would expect this facility to be at full ramp by the end of CY08 or roughly 12 months in total (compared to three years for the Northeast RDC).

3. Returns should accumulate quicker.

Most importantly, we think returns will begin to accelerate as multiple RDCs begin to work as an integrated network (the real breakout point is when the third or fourth facility ramps). Remember all software costs for the entire project were front-end loaded (well over \$350 million in total), and each subsequent facility should cost roughly \$100 million going forward. With a faster ramp and incremental cumulative dollar savings, we expect an ROI north of 20% on the combined investment over the next 12-24 months (or \$100 million over \$450 million).

Bottom line, we think the RDC has turned the corner and will begin to provide a greater payback for SYY over the next 12 months and certainly the next 2-3 years. In addition, we have had multiple conversations with key industry contacts that suggest SYY now thinks this project can exceed its original expectations and provide a material competitive advantage for years to come (especially when combined with sourcing and integrated delivery).

Dave's Comments: Time will tell, but it seems reasonable that this facility will come up much more smoothly than RDC #1. Not only has Sysco learned from the Front Royal experience, but most of the manufacturers will know what to expect as well.

Southeastern Regional Managers and Sales and Marketing Agencies will be going through it for the first time, however. Even if you have already done so, it's not too early to talk with your colleagues in the Northeast about what to expect. No matter how smooth the startup, there are sure to be temporary holes in the information flow, and a one-time volume loss as excess inventory is purged from the pipeline.

If these are the biggest problems, it will be smooth sailing for everyone involved.

Thanks again to Jason and Scott at Cleveland Research Company - keep up the good work, guys!

Franklin Foodservice Solutions has been helping manufacturers get more out of their redistribution programs since 1996. Visit our website (www.franklin-foodservice.com) to read and download any of our newsletters, white papers, and articles about redistribution.

"Dave is extremely knowledgeable in all facets of the foodservice world. His special emphasis on redistribution strategies is really helpful for a manufacturer's understanding of that important aspect of the industry. Dave is a practical, hands-on straight shooter who works hard to deliver the best for his clients."
- Vice President, \$2Billion Foodservice Manufacturer

THIS MONTH'S FEATURE ARTICLE: **"The Scary Times Success Manual"**

A few months ago, I came across a great little document written by Dan Sullivan, Founder and President of The Strategic Coach (www.strategiccoach.com). Dan's business is focused on helping independent entrepreneurs, but his "Scary Times Success Manual" contains wisdom that pertains to all of us.

So whether you're a Sales professional in a struggling upper-midwest market, a Marketing manager in a company that is going through upheaval, or just a veteran of the slow-growth foodservice business, I think you'll find Dan's advice useful.

THE SCARY TIMES SUCCESS MANUAL

By Dan Sullivan

Recent economic and political events have made many people anxious and fearful about their futures. At The Strategic Coach®, our business is helping successful entrepreneurs increase their sense of direction, confidence, and capability in all areas of their personal and business lives. In response to many requests from our clients for insight into the present “scary times,” we have developed ten strategies for transforming the negativity of the current situation into opportunities for growth, progress, and achievement. We hope these strategies support your creative thinking, communications, and actions in the months ahead.

1. Forget about yourself, focus on others. Fear can drive people into themselves, making them feel isolated and helpless. The best strategy here is to go in the opposite direction, expanding your connection with others – focusing on helping them transform their negatives into positives. The more you contribute in this fashion, the less you will need to worry about your own situation. You will become a source of confidence for everyone else.
2. Forget about your commodity, focus on your relationships. In scary times, people become frightened about the viability of their “commodities” – the things they sell and the jobs they hold. A more strategic response here is to disregard your own commodity and focus on deepening the power and possibility of all your relationships – with family, friends, team members, suppliers, clients, customers, and prospects. Every time you strengthen a relationship, the viability of your commodity, without you focusing on it, will increase.
3. Forget about the sale, focus on creating value. Most people don’t like being sold at the best of times. When times are scary, they turn off, hang up, and slam shut. But what people want at all times is value creation – that is, solutions that help them eliminate their dangers, capture their opportunities, and reinforce their strengths. When you focus on providing these three solutions, the sales will naturally follow.
4. Forget about your losses, focus on your opportunities. Things you had, things you took for granted, may have disappeared. Some people never get over this. They keep trying to replay their old games. A better strategy is to start an entirely new game – using new ideas, new energies, new tools, and new resources. A big opportunity is suddenly available now for achieving far more than you ever did in the past.

5. Forget about your difficulties, focus on your progress. Things may not be as easy as they were. The new difficulties will either defeat you or reveal new strengths. Your physical muscles always get stronger from working against resistance. The same is true for the muscles in your mind, your spirit, and your character. Treat this whole period of challenge as a time when you can make your greatest progress as a human being.

6. Forget about the “future,” focus on your today. The “future” is an abstraction. It doesn’t exist except as an idea. The only future that has any reality is the one that you continually create for yourself through each day’s contributions, achievements, and results. This is an excellent time to ignore all those experts who never saw the present circumstances coming. Focus on what you can do over the course of each 24 hours, and you’ll be the only expert on the future you’ll ever need.

7. Forget about who you were, focus on who you can be. Many people define themselves by external circumstances. When these abruptly change, they don’t know who they are, so they keep trying to be who they used to be. From now on, take your cues from the inside – from your dreams, ideals, values, and operating principles. These need never change, regardless of the circumstances. Take advantage of the present external confusion to become self-directed, self-managed, and self-motivated.

8. Forget about events, focus on your responses. When things are going well, many people think they are actually in control of events. That’s why they feel so defeated and depressed when things turn bad. They think they’ve lost some fundamental ability. The most consistently successful people in the world know they can’t control events – but continually work towards greater control over their creative responses to events. This period, while things are uncertain, is an excellent time to focus all of your attention and energies on being creatively responsive to all of the unpredictable events that lie ahead.

9. Forget about what’s missing, focus on what’s available. When things change for the worse, many desirable resources are missing – including information, knowledge, tools, systems, personnel, and capabilities. These deficiencies can paralyze many people, who believe they can’t make decisions and take action. A strategic response is to take advantage of every resource that is immediately available to achieve as many small results, to make as much daily progress, as possible. Work with every resource and opportunity at hand, and your confidence will continually grow.

10. Forget about your complaints, focus on your gratitude. This is one of those times when everyone has to make a fundamental decision: to complain or to be grateful. When things turn negative, the consequences of this decision are much greater. Complaining only attracts negative thoughts and people; gratitude creates the opportunity for the best thinking, actions, and results to emerge. Focus on everything that you are grateful for – communicate this – and open yourself each day to the best possible consequences.

We encourage you to share this manual with anyone you think might benefit from it. Please see our website at www.strategiccoach.com for free downloads of this document and a 40-minute audio in which Dan Sullivan elaborates on the concepts in The ‘Scary Times’ Success Manual. For printed copies, call The Strategic Coach at 416.531.7399 or 1.800.387.3206 and ask for the Knowledge Products™ Team.

“The beginning of wisdom is to call things by their right names.”
-Chinese Proverb

AND FINALLY, A WORD ABOUT “NAMING NAMES”

A colleague of mine has a business which often takes him into the minutiae of product descriptions and specifications. Part of his work involves helping clients match up their products against competitor’s products (in support of contract compliance, for instance). In the process, it is often necessary to compare two product descriptions from two manufacturers, and try to determine whether they are valid substitutes for one another.

We’ve found that many manufacturers have broad inconsistencies in the way they name their products, at least in their Item Masters. And we know that the Product Descriptions in the Item Master are often far different than the Product Descriptions that appear on price lists, selling sheets, and POS materials.

And it makes us wonder:

-Who writes the “product descriptions” that go into an Item Master?

-Who uses the descriptions from the Item Master? For what?

-How many places is the product name used? (either the Product Description from the Item Master, or another name). We've thought of:

- Legal - label declarations
- Internal Operations/Manufacturing/Supply Chain
- Case and package labels
- Price Lists
- Sell Sheets
- POS/Tabletop material
- Menu
- Food Profile
- Distributor's database
- Operator's database
- Broker's database

How do your product naming practices compare to:

- How Distributors think about your product?
 - Buyers
 - Sales People
- How Operators think about your product?
 - Headquarters
 - Individual units
 - Chefs-Cooks
 - Buyers
 - Wait staff
- How Consumers think about your product?

We know better than to suggest a single convention for product names that would span the entire foodservice community. But we also believe that individual manufacturers often unknowingly create their own "Tower of Babel" by allowing inconsistencies to creep into their naming practices. As a result, even experienced Sales people and their customers aren't always sure what product they're talking about.

So it seems that manufacturers have an opportunity to establish only 2 descriptions for each product:

1. The "Item Master" description which meets all legal and labeling requirements
2. The "Marketing" description which reflects the way the products' users think about it

...and to make sure that everyone understands where the legal Item Master description must be used, and where the more market-driven Marketing description may be used

...and then to make sure all distributors, agencies, operators, and others are using the proper descriptions

So how about it? Is this a real problem that could be solved with focused attention and a rigorous process? Or is it just a minor irritant that everyone has learned to work around?

If you have any thoughts to share, please let me know and I'll cover them in a future issue.

Without naming names, of course.

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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