

FOODSERVICE MARKETING INSIGHTS

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

Volume 5, Issue 3
March, 2007

IN THIS ISSUE:

REDISTRIBUTION UPDATE:

“In or Out?”

FEATURE ARTICLE:

“Regionalize THIS!”

A WORD ABOUT “SLIMMING DOWN”

REDISTRIBUTION UPDATE:

“In or Out?”

At last month’s Top2Top meeting of the Foodservice Sales and Marketing Association (<http://fsmaonline.com/>) I had the opportunity to speak with a lot of broker agencies about their experience thus far with the Sysco RDC program.

We talked in detail about the impact of having a manufacturer’s line IN the RDC, as well as what happens when their line is NOT IN the RDC, and a competing line is. I asked about the ramifications on agency roles, responsibilities, and organization structures.

I was expecting to hear about all of the competitive advantages of being IN. One might expect that having a line in the RDC would mean that manufacturer RM’s and agency people had to “play less defense” vs. their competitors at the OpCo level. It would also seem that being in the RDC would help grease the skids for new product placements, and in general provide for a tighter relationship and information sharing.

What I heard was surprisingly different.

It has emerged that some suppliers who are NOT IN the RDC have taken advantage of their freedom to wheel and deal on pricing at the OpCo level. Those who are in the RDC have conformed to a netted-down RDC price. The price to the OpCos is controlled out of Houston, with all of the OpCos served by the RDC presumably receiving equal pricing.

For competing suppliers who are NOT IN the RDC, it's business as usual, with the opportunity to make deals and set prices on a house-by-house basis. So RM's and agencies who are IN must continue to fend off the competition, with their hands somewhat tied by the rules of the RDC.

When it comes to getting new products into the RDC, it can be tough sledding as well. There was a sense that some OpCo Buyers are reluctant to request that a new item be brought into the RDC, even if they feel it will be successful in their market. They are naturally hesitant to have their name attached to a product which may fail to meet the overall RDC volume requirements.

And while the timeliness and accuracy of information flow - from RDC to manufacturer to agency - has improved, the level of detail is limited. So for lines that are IN, agencies find themselves dealing with less sales data than they used to have, with a resulting negative impact on their ability to audit income and make strategic decisions.

All of this is not to say that being in the RDC program is a competitive disadvantage. Given the choice, I'm sure most manufacturers and agencies would rather be IN than OUT.

It's just that in its present form, the RDC program is just a much better way of moving boxes - nothing more, and nothing less.

And from a sales and marketing standpoint, it's still a jungle out there for manufacturers and their agencies.

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.

"It has been said that arguing against globalization is like arguing against the laws of gravity." - Kofi Annan

THIS MONTH'S FEATURE ARTICLE:
"Regionalize THIS!"

When it comes to predictions, be they for the weather or the NCAA Tournament, I've stopped paying attention. Meteorologists and pre-game hosts are far too smug when they come up right, and always prepared with a dismissive chuckle when their predictions come up wrong.

So when asked to participate on the "Regionalization Panel" at last month's FSMA Top2Top Conference (<http://www.top2toponline.com>), I was a little hesitant. It seems that a few foodservice manufacturers are pursuing a strategy of establishing 5-10 regional broker agencies, in lieu of the traditional 50-60 local agencies. These manufacturers are strongly encouraging their favorite agencies to expand or buy into neighboring markets, putting new pressure on others to sell out or risk being overwhelmed by a competing regional.

This, combined with similar influence from some regional distributors, is raising a lot of questions and concerns among the foodservice agency community.

- What forces are at work to drive this change?
- Is regionalization the wave of the future?
- What will the foodservice manufacturer/agency landscape look like in five years?
- Will I need to sell out or be forced out of business?
- Will a national foodservice agency organization emerge, mirroring the success of Crossmark and others at Retail?

The panel discussion and Q&A sessions turned out to be lively, informative, and a lot of fun. The session was moderated by Mark Baum, a food industry veteran and Partner at DiamondCluster International. In addition to Bob Goldin from Technomic and Greg Ibsen from Ibsen's Team, we were joined by Ben Fischer from Crossmark and Tad Mancini from Mancini Sales and Marketing, a successful Retail agency which has remained independent in the face of regionalization.

The general consensus among the Foodservice Guys was that some regionalization is bound to happen, and that it really wasn't all that new. After all, we've had regional agencies in New England, the Northwest, and a few other markets for decades. But most of us saw no threat to the well-run independent. The foodservice agency landscape of the future will be the result of hundreds of one-off decisions by individual business owners, and will include both regional and local organizations. None of us could envision a national foodservice agency in the foreseeable future.

The Retail Guys were less certain. Despite our mantra that “foodservice is too different” and “much too fragmented,” they saw a lot of similarities in our business environment and the retail business environment of 10 or 15 years ago. And one even predicted that we would have a national foodservice agency within five years.

Only time will tell who is right.

So while I enjoyed the opportunity to share my views and make a few cautious predictions, I also learned enough to remain open to the possibility that major change is ahead. Manufacturers and agencies alike will be wise to keep an eye on developments, and to think now about how you’ll react if your competitors begin to move toward regionalization.

AND FINALLY, A WORD ABOUT “SLIMMING DOWN”

Over the years, I’ve been involved in quite a few “SKU Rationalization” projects. They’re pretty much all the same, meaning:

- someone in Operations or Finance decides the product line is too large, and demands that Sales and Marketing make a major reduction

- Sales and Marketing fight back, citing the obvious loss of volume, and potential loss of operator and distributor customers as a result of eliminating their pet products

- a lot of time and energy is spent reaching a compromise

- the resulting cuts are big enough to irritate Sales, agencies, and customers, but too small to solve any financial and operational issues

- 6 to 12 months later, it all starts again

Further, these projects often go on with no clear process, no clear responsibilities, and usually involve several hundred to several thousand products.

Recently, I had the opportunity to talk with a distributor executive about how they handle this problem. He told me they usually look at 10,000 SKU's at a time, and that it is not unusual for them to bring in 1,000 new SKU's in a month. They follow a monthly review process, supported by proprietary software which looks at turns, margins, number of customers, volume trends, and many other factors. By following a strict process and getting everyone dealing with the same information, they remove a lot of the emotion, guesswork, and politicking from the equation.

It makes me wonder how many manufacturers might learn a thing or two from the distributor side. I'd like to hear about how things are done at your company, for instance:

-do you attack this issue on a regular, planned basis, or wait until someone declares an emergency?

-how often do you go through this exercise?

-do you follow a set process, or make it up as you go along?

-do you use specialized software?

-who is responsible for results?

If you've got this under control and are keeping your product line lean and mean to everyone's satisfaction, congratulations and keep up the good work!

If you regularly struggle with Product Line Rationalization, I've got some ideas you can use at:

http://www.franklin-foodservice.com/ProductLineOptimization_000.html

Have a look and let me know what you think!

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