FOODSERVICE MARKETING INSIGHTS

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

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REDISTRIBUTION UPDATE:

"Plan Now or Pay Later"

We had a good time at the FSMA Top2Top Conference last month talking about "The Future of Redistribution." The agencies and manufacturers who attended my workshop agreed that the road to Sysco's RDC vision has been a little bumpy, but that better times are ahead.

We even had one manufacturer say that Sysco had done a great job of estimating his costs, and that the process of negotiating the RDC program was a good one(!)

The big news flash was the recurring talk about the "one time, permanent volume loss" associated with a manufacturer's line going into the RDC. It seems that there is a flushing out of excess inventory in the pipeline, during which orders become small and scarce. Once the purging is complete, volume returns to normal levels, but with significantly different order patterns from the RDC.

When it was first mentioned, I thought it was probably a somewhat isolated instance. But when several other agencies and manufacturers chimed in, it became clear that many people had experienced the same effect. And some said the impact was as much as 5-6 weeks' sales, or approximately 10% of their annual volume!

Is it possible that there is that much "slack" inventory in the traditional foodservice supply chain? You betcha.

With manufacturer inventory in plants, manufacturer inventory in forward warehouses, and OpCo inventory, there could easily be 2 weeks safety stock at each level. And just as it is intended to do, the RDC initiative severely reduces the need for safety stock by enabling a continuous product flow from plant to RDC to OpCo to operator.

While everyone feels the pinch, it seems that the pain is worst for agencies who have multiple major principals going into the RDC at the same time. Next in line is the manufacturer's Regional Manager, who will feel the hit from all of his Sysco houses served by the RDC. And the impact will be felt back at Headquarters, but will be somewhat softened because it only affects one set of distributors in one region at a time.

So if you're a manufacturer who is in the on-deck circle for the next wave of Front Royal implementations, you should be talking with your Sysco contacts about what to expect, and planning accordingly. If you're an agency in the northeast or southeast, now is a good time to have a conversation with your principals who will be in the RDC, so you can plan together how to deal with this one-time slippage.

It's just another example of taking your medicine now to make things better in the future.

Franklin Foodservice Solutions has been helping manufacturers get more from their redistribution programs since 1996. E-Mail us (dave@franklin-foodservice.com) to receive a copy of our article "Does Your Redistribution Program Address These Realities?"

"When you wish to instruct, be brief; that men's minds take in quickly what you say, learn its lesson, and retain it faithfully. Every word that is unnecessary only pours over the side of a brimming mind." - Cicero (106 BC - 43 BC).

THIS MONTH'S FEATURE ARTICLE:
"A Tale of Two Companies"

Over the past few weeks, I've had the chance to work with a company that embraces the opportunistic, wheel and deal nature of much of the foodservice business. I've also been working with a company that follows a very buttoned-down, structured approach to the market.

The first sees volume prospects in the hurly-burly, disjointed, transactional environment, seizing opportunities on both the buy and the sell side.

The second sees long-term risk and makes a concerted effort to stay above the fray, willingly passing up volume opportunities in order to preserve the integrity of their prices and margins.

Who's right? They both are.

With their responsiveness to one-off opportunities, the first company has established a solid reputation as a serious foodservice player in their market. Their suppliers, salespeople and customers constantly bring them "deals," knowing they are likely to jump on them and make the quick sale.

With a much more cautious approach, the second company is sometimes thought of as one who is not fully committed to foodservice. Their salespeople and customers have learned not to bother asking, unless the deal will provide long-term strategic value.

Who's going to be successful? Both companies have been around a long time, and both are doing well.

The first company has morphed its way into doing business in a lot of different channels with a lot of different product lines. With its fingers in so many pies, there is no telling where growth will come from next year, or maybe even next quarter.

The second company has narrowed its focus to a core set of products and target segments. It has carefully planned its strategy and tactics to building business in these areas, and has dutifully projected the P&L impact of its actions.

Who's got the right idea? They both do.

As long as the first company is willing to scramble on a daily basis to bring in the numbers, they'll be fine. As long as their owners are willing to live with volatility and uncertainty, relying on excellent customer relationships and day-to-day execution, they'll be happy. And as long as no one expects industry-leading profits, everyone will get along.

As for the second company, they must be willing to put up with criticism of their approach and hold the line. And as long as everyone recognizes that the more disciplined, less flexible approach will probably limit short-term volume growth, they'll all be happy as well.

The moral of this tale of two companies is that there is more than one way to succeed in the foodservice market; the chosen path will present both opportunities and limitations which must be understood and accepted.

AND FINALLY, A WORD ABOUT "COOPERATION"

Hanging out with Foodservice Sales and Marketing Agencies has given me a much-needed fresh perspective on the challenges they face.

We've always known that agencies are pulled in all directions by their major manufacturer principals, the most powerful distributors in their markets, and major operator accounts. Time permitting, they also pay attention to what's best for their own business. What's interesting is thinking about how often (or how rarely) the priorities of key manufacturers, key distributors, and the agency's own interests are aligned.

For example, if the Top 10 manufacturers give an agency 10 operator targets, and the Top 3 Distributors give them 10 operator targets, that's potentially 130 targets to "focus on" for a given period. How much overlap might there be, when a given operator is on all 13 lists? I have no idea, but even if it's as high as 20%, that's still over 100 target accounts to cover.

And as manufacturers become more demanding about operator call reporting, the stakes get higher. With limited time and resources to make targeted sales calls, the agency must often choose which manufacturers and distributors to appease, and which to disappoint or anger.

But the real opportunity for agencies is to create more "selling time." Just like manufacturer Sales Managers, agency people are constantly pulled away from their sales work by two great "time bandits:" administrative work and "go-fer" work (endless one-time assignments thrown at them by manufacturers and distributors).

We'll address the go-fer work in a future issue. Regarding administrative work, it seems that the same information technology which promises to streamline administration also feeds an insatiable hunger for more and more data. Thus the proliferation of manufacturer in-house systems which are given to brokers for purposes of call reporting. Never mind that every manufacturer's system is different, they're also all different from the agency's own call-reporting system.

So it is that rather than streamline the call-reporting work, this technology in fact forces agencies to duplicate data entry for every manufacturer who wants on-line sales call reporting.

But we're working with one system which integrates with the agency's internal reporting system, pulling out the appropriate information and reporting it to the appropriate manufacturers. The agencies who are on board are providing very positive feedback about being relieved of duplicate administrative work. And we're guessing that the manufacturers who use this system are receiving a little extra support from their agencies.

It's only one piece of the puzzle, but it's a great example of cooperation between manufacturers and agencies for the betterment of both.

Drop me a line if you'd like to hear more about it.

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