FOODSERVICE MARKETING INSIGHTS

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

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REDISTRIBUTION UPDATE:
"One Thing Leads to Another"

Around the time Sysco's RDC program was coming to life, the company began making public statements about related initiatives. There were not-so-subtle suggestions that the RDC network was one of several far-reaching steps that Sysco would take to streamline their business, standardize and centralize operations, and improve their competitive position.

And while suppliers and their agencies continue to come to grips with the impact of RDC's, Sysco is already ankle-deep in the next big thing – Centralized Purchasing.

Sysco's public statements assert that as long as they allow local sourcing decisions, they "don't buy like a $33 Billion company."
Sounds ominous, doesn't it?

My understanding is that they've started by focusing on eight categories which are common across all OpCo's, and are packed under the Sysco labels. They're looking at ALL of the numbers, including programs, special prices, and agency commissions, with the goal of driving down to dead-net pricing. Their three objectives are uniformity, efficiency, and lower cost.

Right now, it's not clear how far Sysco will take this. And it's hard to say exactly what the ramifications will be for manufacturers and their broker agencies. Sysco either hasn't thought about it, or isn't sharing their thoughts publicly (my guess is the latter).

But we need look no further than Wal-Mart to envision a future where:

-purchasing decisions are made strictly by the numbers, without regard to relationships

-manufacturers must deal with big wins and big losses, rather than always having 83 shots at success or failure

-the role, value, cost, and even the assignment of agencies is brought under close scrutiny, and may have to change. Radically.

On the one hand, we've all longed for an end to the madness of sheltered income, distributor marketing programs, and product line proliferation, and Sysco may finally be doing something about it.

On the other hand, we fear that businesses, companies, and careers will be built or broken by a single decision, and that even the "winners" won't enjoy supplying huge volumes at razor-thin margins.

But like it or not, manufacturers and agencies need to invest in understanding exactly what Sysco wants you to do in response to the RDC and Centralized Purchasing initiatives. Then you can make your own decisions.

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?"

"If the only tool you have is a hammer, then every problem looks like a nail."
– Unknown

THIS MONTH'S FEATURE ARTICLE:
"96 Tiers"

Not so long ago, manufacturers paid a flat broker commission rate, either a percentage or cents per pound, across their entire product lines (or at least by category). Then many moved to a multi-tiered commission structure, whereby rates were adjusted to reflect the manufacturer's margins. High value-added products received high commission rates, while commodity items had very low or no commissions.

These practices are based on the belief that agency executives and sales reps will focus their efforts against products with high commission rates, therefore influencing the volume mix in their markets.

But I think there's an equally plausible, if discouraging, point of view. It says "the market buys what it wants," often based on price. And that focus, marketing, and salesmanship can only go so far to affect the mix among commodity, value-added, and premium products.

And if this holds true, then implementing a tiered commission structure may bring unintended consequences.

It's easy to envision a scenario in which:

-the agency tries harder to sell the high-commission products for a while

-the market continues to buy what it wants

-agency commissions go down significantly

-the agency reduces its focus on your entire line, shifting it to more profitable lines

I don't know of any studies that would tell us about the result of tiered commission structures. I suspect that they have been effective in reducing commission expense for manufacturers, and commission income for agencies. But influencing the demand mix toward higher margin products? To me, that's an open question.

So if you're a manufacturer or agency who has a point of view to share, why not drop me a line? We'll keep the dialogue going – anonymously, of course. And chances are we can all learn something in the process.

AND FINALLY, A WORD ABOUT "CROSS PURPOSES"

Last month, I mentioned the book "Working at Cross Purposes: How Distributors and Manufacturers Can Manage Conflict Successfully."

I'm four chapters in, and already can give the book two enthusiastic thumbs up. Here are a few nuggets:

-"Suppliers look at gross margin on a specific product and make decisions accordingly. Distributors make those decisions differently because they look at the gross margin on the customer's total purchases, independent of specific product values. This distributor's approach may appear intuitive and reactive to a supplier, but it remains highly effective."

-for distributors, "The customer relationship often represents a much better long-term investment than the relationships with suppliers being represented at any point in time."

-"Other tools used by distributors to leverage power over suppliers include private label, substitution ability, and finally, take-away power. (Private label) jeopardizes supplier relationships as the distributor is essentially becoming a competitor of its own supplier. It is a powerful force that gains a solid foothold as it lowers prices to the customer while simultaneously raising gross margins for the distributor (at least in the short run). Once it is recognized that these relationships are fundamentally economic, it is easy to see why suppliers cannot make this trend go away.

-"Once suppliers…start trying to lock up distributor annual purchases with rebates, they give the distributors power to shop their entire purchase volume. When you consider the impact that a win or loss has on plant utilization, it is easy to see how feelings get hurt to the point of provoking retaliation."

Whether you're a manufacturer, distributor, or agency, and whether your channel relationships are great, dysfunctional, or somewhere in between, you should read this book. There are precious few references to guide foodservice marketers; this one will bolster your understanding of a complex subject so you can more effectively manage manufacturer-distributor relationships.

"Working at Cross Purposes can be purchased at www.naw.org.

As 2006 draws to a close, I sincerely thank you for reading Foodservice Marketing Insights, and wish you success and happiness in 2007.

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