FOODSERVICE MARKETING INSIGHTS

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From Franklin Foodservice Solutions and Dave DeWalt

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IN THIS ISSUE:

REDISTRIBUTION UPDATE:
"Are Order Management Cost Savings Real?"
(Reprinted from January 2004)

When we begin to work with manufacturers on redi programs, we talk about "Cost Avoidance" and "Marketing Value." A solid understanding of these factors provides the basis for developing the redistribution allowance offer, and ensures that all parties understand the economics of the program.

Marketing Value is perhaps easiest to understand, but toughest to quantify. It is the benefit to your distributor (and you) of having all of your products available on a weekly basis, with no minimum and short lead time. This gives the distributor improved inventory management, ability to respond to changes in demand, and higher ROI for your product line. Great customer service is clearly worth something; we work with Marketing, Sales, and Finance to put a dollar figure on it.

Cost Avoidance has two components: Logistics Costs and Order Management Costs. It takes effort, but we can always come up with a realistic measure of Logistics Cost savings. When business flows through redistribution, the costs of deployment, warehousing, and customer freight are greatly reduced or eliminated. This component is easiest to understand and also relatively easy to quantify.

Order Management cost avoidance is harder to understand, and problematic to quantify. It is the cost of receiving and entering orders, booking transportation, billing, extending credit, collecting accounts receivable, and managing deductions. Most companies peg this cost at anywhere from $75 to $200 per order.

It is not unusual for us to show that 50% of the customers drive 40% of the Order Management activity, while representing only 10% of the volume due to their small order size. When you spread the "per order" cost across your small orders, you get a very high "per pound" cost.

Obviously, outsourcing thousands of orders to a redistributor reduces the workload in Customer Service, Traffic, and Accounts Receivable. But I have yet to see a manufacturer lay off anyone after successfully establishing a redistribution program. This naturally leads to questions about whether Order Management cost savings are "real."

There is certainly something to be said about freeing your Customer Service people from order entry activities, so they can provide a higher level of service to your direct-buying customers. And it seems plausible that over time, human resources get redeployed to where the work is. But manufacturers are making a mistake if they don't make an intentional effort to capture the potential cost savings.

Customer Service and Order Management people are some of the nicest, most dedicated folks in the food business; I'm the last guy who wants to see any of them lose their jobs. But a wise manufacturer will calculate the reduction in order activity offered by redistribution, and figure out a way to capture the benefit.

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.

And click on https://technomic.securelook.com/cgi-bin/store/commerce.cgi?page=redistribution.html&cart_id=371922_29152 for information about "The Industry Guide to Redistribution." Receive a $100 discount when you tell Technomic that you subscribe to Foodservice Marketing Insights.

THIS MONTH'S FEATURE ARTICLE:
"Desperately Seeking Data"

In the nearly 30 years I've been kicking around this business, foodservice manufacturers have been on a quest to understand where their products go after they leave the broadline distributor's warehouse. And this information has been closely guarded by most distributors, fueling the manufacturers' frustration as well as their conviction that seeing it will shed new light on their business and supercharge their marketing efforts.

For years, manufacturers have offered deviated pricing and operator rebate programs which require proof of purchase, as a means of collecting this information. More recently, companies have sprung up which organize and present contract operator purchase data via the web. While manufacturers value these tools, they still provide only a partial picture of the total business.

At a recent meeting with a foodservice distributor, we discussed the motivation behind the manufacturer's craving for operator data, as well as the reasons distributors hoard it. And I've posed the question to several of my colleagues and have received very interesting responses, which are summarized below:

Why Do Manufacturers Want Operator Sales Data?

"To sharpen our marketing focus by understanding what types of operators buy each category"

"To validate distributor deviated pricing claims, and make sure they're not overstating shipments to contract customers"

"To understand who our key operator customers are so we can leverage their demand"

Why Do Distributors Withhold Operator Sales Data?

"Because operators are OUR customers, not the manufacturer's"

"Because manufacturers will tell major operators how important they are to us, and goad them into demanding more of their products, at lower prices, or will try to switch them to a competing distributor"

"Because manufacturers will try to tell me how much of the business THEY'RE driving, and try to reduce my programs as a result"

Pretty compelling arguments, but do they really hold water?

For instance, if a manufacturer suddenly starts receiving weekly electronic reports from every distributor of every shipment to every operator, what will they do with it? Will they be prepared to translate it, scrub it, organize it, analyze it, and turn it into actionable information? Or will it "pile up" on somebody's hard drive the way paper velocity reports pile up in the inbox?

And don't the local broker agencies have a pretty good handle on which operators are using which products anyway? Does Marketing solicit and use this information as well as they should be?

And if a manufacturer can prove that his operator programs are driving a large portion of a distributor's volume, will that distributor accept a lower "earned income" program? Or will the distributor just continue to threaten punitive action if the program level is not maintained or increased?

And think about it. If a distributor began sharing (or selling) all velocity data in an easy-to-use electronic format, would a manufacturer be likely to use the information against that distributor? Or would he be likely to throw more support behind that distributor because of the clear value he is providing?

Maybe it's time we recognize that with today's technology and changing environment, clinging to these old attitudes is holding us all back. Maybe manufacturers should seek to truly partner with one distributor in each market via an open exchange of information, and reward him accordingly. And maybe by taking one step at a time, we can overcome our fears and mistrust and learn how to use market information in a mutually beneficial manner.

"I'd like to see HER get this letter to California for 39 cents!"

– Post Office Worker after a woman complained about an increase in the cost of stamps

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AND FINALLY, A WORD ABOUT "WHAT IF – PART 2"

Last month, this newsletter was dedicated to an examination of how distributors approach manufacturers on the subject of sheltered income, earned income, trade funds, marketing spending, etc. We made the case that years ago, we all got off track by ignoring the fact that distributors provide great value to manufacturers, because they act as an efficient channel to the operator marketplace. But by positioning income programs as "marketing programs" with questionable value to manufacturers, we have created an environment of resentment and ill will which permeates virtually all aspects of manufacturer/distributor relationships. And we asked "What If" the distributor took a very different approach in seeking manufacturer funds.

This month, let's consider "What If" manufacturers were able to think about distributor funds differently. WHAT IF your 2007 program conversation went something like this:

"We've been thinking a lot about the money that flows 'backward' from our company to yours. When you get right down to it, it's obvious that in today's foodservice environment, distributors need manufacturer funds in order to continue to provide access to operators for our products. And obviously, we foodservice manufacturers wouldn't want to try to do business without distributors!"

"But maybe it's time we stopped calling these funds 'marketing dollars.' In our Retail business, our marketing dollars usually end up flowing all the way to the consumer in the form of special prices or coupons, and we can predict and measure the volume increases they drive. We understand that most of the dollars we spend with you do not get to the operator, much less the consumer; and even if they did, it would be hard to say how much they drive volume."

"So let's start to talk in terms of a 'Distribution Allowance,' which is provided to help offset your cost of doing business. Working together, we should be able to look at our distributor spending over the last few years, and figure out what that is worth on a per pound basis. Immediately upon the end of each month, we'll cut you a check or issue a credit memo for the appropriate amount."

"I'll bet this new way of thinking will greatly reduce the time we both spend negotiating, posturing, threatening, and cooking up loopholes. I'd like to think it will help you with budgeting and eliminate a lot of your administrative overhead. And I KNOW that everyone in our company will feel a lot more motivated to help you succeed by working to improve our service levels, shorten our lead times, improve our invoice accuracy, and all of the other things you need from a supplier in order to maximize your potential."

Listen, in the end it's still dollars going out the door, and you'll still need to negotiate. But wouldn't it be refreshing to sit across the table and know that everyone is speaking the plain truth for a change? And wouldn't your company's attitude toward your distributor customers improve if you viewed distributor funds not as "protection money," but as an investment in a great supply chain? What do you say?

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