Franklin FOODSERVICE SOLUTIONS

Foodservice Marketing Insights

Sent Monthly to Over 850 Subscribers Worldwide
Volume 9, Issue 2
February, 2011

IN THIS ISSUE:

ATTENTION SUPPLY CHAIN PROFESSIONALS: *We have launched a Foodservice Supply Chain Share Group to provide an ongoing forum for learning and improvement. With four outstanding founding members, we'll be tackling issues of interest to all foodservice manufacturers, and ultimately will be conducting studies, issuing reports, and holding live workshops. We are interested in adding selected members over time; if you would like to learn more and investigate whether this might be a fit for your company, please click here and I'll get in touch with you.*

I work with Brian Finn of The Shamrock Group, supporting his contract compliance system for manufacturers. We're about the same vintage, with similar foodservice career paths, but Brian has the added perspective of working for and with meat companies. It leads to a lot of interesting discussions about commodities, pricing practices, and the role of marketing in foodservice. This month's commentaries are a direct result of some of these talks; we invite you to join conversation.

Thanks for reading, and as always, let me know what you think. Tell Dave

Dave

"The sole purpose of marketing is to sell more to more people, more often and at higher prices. There is no other reason to do it."
-Sergio Zyman

"Product Management vs. Brand Management"

Every now and then, my colleague Brian Finn from The Shamrock Group draws me into a deep conversation about foodservice marketing. We both see it at work in a lot of different companies, and are often struck by the very different approaches taken by manufacturers who compete in the foodservice channel.

For instance, we were talking last week about the difference between marketing for a commodity-based business, vs. a value-added business. Let's set aside for the moment the fact that many manufacturers who consider their products "value added" are in fact viewed as commodities (or close to it) by their customers. For today's purposes, let's agree that "commodity businesses" are those who:

-produce products which are considered "ingredients," or become "components" of finished meals
-have primary ingredients which constitute a very large portion of their total COGS
-use primary ingredients whose costs fluctuate, and these costs are regularly published and known to the marketplace
-generally tie their prices to published commodity costs, leading to formula-priced contracts with large customers, and regularly-adjusted prices (up <u>and</u> down) to everyone else

The most common examples are meat, dairy, and coffee companies.

By contrast, true "value-added" product lines are those which:

-tend to be finished, ready-to-serve products which require little kitchen labor
-require many ingredients per finished product, with a much higher degree of processing (and often packaging) taking place in the manufacturer's plant
-require much less frequent price action, and virtually always move prices in an upward direction

Brian's point was that the marketing disciplines required for success in the two types of business are very different.

The Marketing Manager for a poultry or dairy manufacturer needs to have strong <u>product management</u> skills; taken literally, this means broad and deep understanding of every line item on his P&L. Because the vagaries of commodities markets can make or break the bottom line in a heartbeat, these marketers must constantly respond by adjusting prices, marketing spending, and possibly packaging and formulations as well. They must evaluate and approve major account contracts based on their knowledge, experience, and intuition.

And they've got to thrive in the "deal of the day" competitive environment, constantly fighting to maintain both volume and margin with customers who want them to choose one or the other.

Meanwhile, the marketer who toils for a value-added manufacturer is likely to focus on brand management skills.

These folks tend to want to stay above the fray of price competition, preferring to work on building the brand via advertising, packaging, and promotion. They place a high value on product innovation (or what passes for it these days…) and embrace the notion that differentiation will provide insulation from intense price competition.

With this mindset, value-added Marketing Managers may not be as well-versed on product costs, focusing instead on building volume because the margin will "take care of itself." They often see themselves as the counterweight to Sales and their motivation to concede margin to get a sale.

Now we recognize that there are notable exceptions to this rule. In even the most commodity-driven categories, there are manufacturers with strong national brands, and these marketing departments are likely to take more of a brand management approach. But if (as is often the case) the brand recognition is built on the strength of the consumer/grocery/retail business, we wonder how effective this approach really is in the foodservice channel.

Likewise, we're sure that some marketing folks on the value-added side have both brand-management and product-management skills.

What's interesting is that we've worked for and with companies who have merged divisions, creating a product portfolio that spans the entire range from basic commodity to upscale/highly processed value-added goods. And we've observed that the two cultures generally don't play well together, with the "prima donnas" decrying the "meatheads'" lack of discipline, while the meatheads grumble about the prima donnas' detachment from reality. And with one sales force trying to build both types of business, these companies probably look like Jekyll and Hyde to a lot of customers.

Perhaps this is one of the reasons there seem to be more spinoffs than mergers these days. What do you think?

"Marketing Spending vs. Trade Spending"

And as long as we're at it, let's talk about "marketing spending." For many manufacturers, the definition of this term is ever-expanding. It can include every type of rebate, allowance, billback program and incentive provided to distributors and operators.

But I believe that true marketing is an ongoing, organized effort to communicate good things about your company and your products. While it creates a universe of "warmed up" prospects who may someday be interested in doing business with you, marketing efforts usually do NOT involve a direct cause-and-effect relationship. In my experience, good marketing is a key contributor to business growth, but it is very rare to be able to say "we got this piece of business because of that marketing effort."

If you buy into this premise, it should follow a lot of the "marketing spending" that goes on in foodservice is not related to marketing at all.

In our experience, most spending at the distributor and operator levels is exactly the opposite of true marketing spending. It is a decision to spend money in order to capture (or hang onto) a specific chunk of sales volume. As such, it is clearly spending to achieve a short-term objective, with the expectation that a piece of business will be traced directly to the decision to spend. In fact, Brian makes a very compelling case that this type of spending is essentially a price reduction, provided to allow the customer to make a better margin and/or gain new sales.

We also wonder if there is a relationship between a product line's place on the "commodity to value-added" scale, and the effectiveness of trade spending vs. marketing spending. If your product is a true commodity, is it worth investing in true marketing efforts, or should you save your money to fight the daily price wars? And if you truly have a value-added product line, will you have the guts to say no to near-term trade spending/price reduction opportunities, in favor of true marketing spending?

Finally, is it possible that the "wrong kind of spending" can undermine your message? If your customer sees you as a commodity and expects you to compete aggressively on price, will he view marketing efforts as an unnecessary investment that drives up your cost (and his price?) Likewise, if you're investing in marketing to build your brand image and create barriers against price competition, what do you communicate if you also participate in the "deal of the day" game?

This can be complex stuff, but just thinking and talking about it can help sharpen your focus. We welcome your thoughts and questions by phone or email.

Thanks for reading!

Our mailing address is:
Franklin Foodservice Solutions
Franklin Foodservice Solutions
247 Daniel Drive
Sanibel, Florida 33957