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It's been a great month so far, including with a talk at my Alma mater, an excellent Supply Chain Share Group conference call, and delivering a "SKU Rationalization/Product Line Optimization" webinar Wednesday afternoon. Of course, we're also keeping up with several active projects, planning for some upcoming projects, and putting together what I hope is an informative newsletter for you. Thanks for reading, and as always, let me know what you think, at Tell Dave

Dave

"Good teacher. He really seems to care. About WHAT I have no idea!"- Thornton Melon

"Back to School"

I recently had the opportunity to address a Junior/Senior level Foodservice Supply Chain class at Michigan State University. As I looked out at those fresh young faces, I saw myself 30-some years ago - and I couldn't resist warning them that in 30 years they were going to look like me!

We talked for a while about career opportunities in the foodservice world. MSU has such a great focus on developing foodservice operators that most of the students see themselves moving in that direction. I took the opportunity to make it clear that there are many other choices, including working for manufacturers, distributors, and broker agencies, and was pleased to hear that several had been interviewing with distributors, and at least one had done an internship with an agency. Hopefully we opened some eyes to the broader world of foodservice.

Then we moved into a great discussion about the realities of the foodservice supply chain. The students were very well-grounded on the basics of the manufacturer-distributor-operator relationships, at least in terms of how products flow. We had some interesting back-and-forth about the roles of broker agencies, and I even got drawn into a few minutes on redistribution(!)

But my main goal was to help them understand the conflicts and friction points among the various parties, and why the foodservice supply chain won't always work the way they want it to. We helped them see how each element makes money, and how their strategic plans usually don't align perfectly.

The most interesting part (for all of us) was a "role playing" exercise involving 3 manufacturers with very different go-to-market strategies. We divided the class into 3 manufacturers, one broker agency who represented all 3, and one distributor who carried all 3 lines. Each company received a one-page outline of their strategy. After a few minutes for each company to review their materials, the fun began.

The 3 manufacturers each communicated their company's strategy for the year (aloud) to the broker agency. It included such elements as:

-distributor vs. operator focus

-willingness to pack private label vs. national brand only

-amount of participation in distributor food shows, marketing programs, sales meetings, etc.

The broker agency of course had their OWN strategy sheet with their internal plans for distributor vs. operator focus, which lines to emphasize, etc.

After hearing the three manufacturer's plans, the broker agency then communicated these plans to the distributor (who of course also had HIS own strategy sheet).

Finally, the distributor "called up" each of the manufacturers with a response to their individual plans.

As you might imagine, we had a good time with some back-and forth conversations and pointed remarks among the manufacturers, agency, and distributor. What was really cool was how well they echoed the conversations we all have on a regular basis here in the "real world." I felt that the students were able to understand some points that took me years to figure out, including:

-agencies are in a tough spot when they need to communicate "bad news" to a distributor on behalf of one manufacturer, "good news" from another, all the while maintaining their own relationship with the distributor

-there are right and wrong ways to communicate this news (one "agency rep" started out telling the distributor "Manufacturer X is going to be tough to deal with this year....")

-the manufacturers had to learn that their product was subject to competition from many other competing packers, and that distributors have a lot of choices available to them

-the manufacturers had to learn that their national consumer brand has limited power in foodservice, due to the consumer being oblivious in most cases

These young people are smart, energetic, knowledgeable, and eager to learn more. It makes me wish there was a way to funnel more of them into manufacturer, broker, and distributor careers, because heaven knows most of us certainly need to be pushed with new thinking from younger, creative minds.

Is your company going to schools like MSU to find your next sales and marketing superstars?

"Who Wants Innovation?"

I've written several times about the role of innovation in the foodservice marketplace. Most manufacturers talk a good game and pour a lot of money and effort into R&D, Product Development, Culinary Innovation, or whatever they're calling it these days. And while I have no hard numbers, I think it's safe to say that most manufacturers are still frustrated at how few new products actually become successful and provide a meaningful return on the investment to develop and launch them.

A colleague and I were kicking this around the other day, and he said something that sounded "backward" at first, but soon made sense. "Who really wants innovation?"

His point was that foodservice operators see a steady stream of so-called "new products" presented by manufacturers, broker agencies, and distributor sales reps. But how many really offer such breakthrough benefits that it's worth the operator's time to change kitchen operations, train wait staff, change menus and point-of-sale materials, and change ordering information? Obviously some are, but it's a barrier that probably gets in the way of new product success within seconds of the operator's first look.

On top of that, distributors need to go through a lot of effort to set up new products in their systems. And most have an understandably cynical attitude based on a long history of new products which failed to produce new sales. And if the manufacturer expects the distributor to sell his product against a competing product which is already in stock, he's fighting an uphill battle. The unspoken truth is that every time a manufacturer successfully uses innovation to build competitive barriers, he weakens the distributor's ability to commoditize the product and drive prices down.

Maybe this is why Sales people and Broker Agencies sometimes roll their eyes at the mention of "new product blitzes" which will suck up precious time and energy, with little chance for meaningful return on the investment.

Obviously, true innovation on important product attributes is a good thing for all involved. But a healthy understanding of the barriers to acceptance of half-baked "innovation" is a good thing, too.

"Some Answers about GS1"

My commentary last month wondering about the state of the Foodservice GS1 initiative drew some reader responses. Unfortunately, all of the respondents share my concern that our industry still might not be ready to embrace a new, standardized, more open way of sharing information.

A few samples:

"There just doesn't seem to be a really good reason to get all channel partners on the same page in foodservice. Also, there still seems to be a need to control the agenda amongst channel partners - all this does is make the transparency issue between buyers and sellers stay murky and inefficient. This industry needs a game changer like Wal-mart to push the agenda. But who is that?"

"I think a lot of manufacturer resistance comes from the belief that manufacturers will be expected to fund the lion's share of the investment/cost of GS1, only to have the power distributors demand that the savings be handed over to them (via lower pricing etc.). What incentive does the manufacturer have to invest to become more efficient and then turn the savings over to (the distributor?)"

"I participated in a number of meetings (DD Note - this pertains to EFR and similar initiatives in the 90's) and committees and was passionate about the project. Apparently I was the only one. Most of the participants were in it for the visibility; nothing really got done and that project went nowhere."

Other respondents felt that the largest distributors might have nothing to gain from a standardized system, as it would level the playing field while today they can compel suppliers to conform to their own internal, proprietary systems.

Now here's the unexpected connection which almost knocked me out of my chair when I read it:

Many years ago, I had the privilege of working briefly on a project team which included Clayton Christensen of the Harvard Business School. If you don't know the name, you might find it interesting to research his work, because Prof. Christensen is a legendary authority on the subject of innovation. I'm reading his book "The Innovator's Prescription," which deals with health care and how disruptive innovation can and must change our system.

Anyway, on the subject of Electronic Health Records (a system which would make our entire medical history easily accessible, in a standard format, to our chosen providers), Christensen writes:

"It would be an extraordinarily selfless act for the independent physicians' practices that care for 60% of America's population to invest in and adopt the EHR systems that would make it easier for other caregivers to care more effectively for THEIR patients. For many providers, patient records can even serve as a strategic asset, since paper records increase switching costs for patients. Helping the <u>system</u> function more effectively simply isn't a job that most individual physicians or competing hospitals need to do. We revisit the refrain: it's hard to build a practice around activities for which you're not paid."

To paraphrase for our world, "helping the foodservice industry function more effectively isn't a job that manufacturers and distributors need to do." I couldn't have said it better myself!

Christensen continues: *"For the average doctor who gets paid on a per-transaction basis, writing paper prescriptions and keeping paper records still costs less, and is a lot more convenient, than adopting an electronic health record. The key point of financial leverage in a physician's practice is the number of patients seen, not the efficiency of back-office record-keeping."*

To my ear, the Professor and the FSMI readers who responded are saying pretty much the same thing.

To reiterate, I'd love to see our industry adopt a smarter way of sharing information. It remains to be seen whether GS1 is the right approach and this is the right time.

Final Word: If you're ready for a straightforward, intelligent, non-political look at the health care industry and how it must change, you will love "The Innovator's Prescription." You can buy it by Clicking on the book below.

Thanks for reading!

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