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# Foodservice Marketing Insights

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### "Killing the Goose?"

Exploring the plight of independent operators, who are often left bearing the brunt of manufacturer and distributor focus on chains, GPO's, etc.

### "Acosta is All In"

Observations about the second entry of a national Retail Agency into the foodservice world

It's been a great spring so far, including an excellent FSMA Top2Top Conference, a lot of travel and client work, and several exciting irons in the fire. And of course, we're gearing up for NRA and the opportunity to meet with as many of you as possible in just a few short days.  (As a matter of fact, you can click here if you'd like to set up some time to chat in Chicago).

This month's newsletter addresses some "big picture" issues that are of interest to manufacturers, distributors, and operators alike.

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

# "Killing the Goose?"

The Cleveland Research Company (www.cleveland-research.com) recently published a financial update on Sysco. Among the comments about Sysco's operations was the following:

*"SYY continues to push harder for contract share gains this past quarter with aggressive bids, although the profitability profile on contract is a fraction of the core Street business (independent restaurants)."*

The same week, ID Report published a commentary which said:

**Chain Restaurant Units Increase and Independents Decline**

*"The total U.S. restaurant unit count dropped from 587,335 in Fall 2010 to 580,852 in Fall 2011, mostly due to independent restaurant closings, based on the most recent restaurant census conducted by The NPD Group."*

***Could the two stories be related?***

It's no secret that independent restaurants represent the highest margin potential for distributors and manufacturers alike. As the last bastions of foodservice customers who do not have their hands in the tills of their suppliers, independents bear the burden of high net prices. This allows manufacturers and distributors to pursue the high-volume chains, Group Purchasing Organizations, and Contract Feeders with aggressive net pricing and trade spending programs.

To quote Dr. Lowell Catlett (who gave a great presentation at FSMA's Top2Top Conference last month), "I ain't sayin' it's good or bad; I ain't sayin' it's right or wrong, it just IS!"

Perhaps the inexorable movement of foodservice volume away from independent operators and toward chains and other large organizations is just a natural result of economics at work. Back in the 80's, when foodservice manufacturers and distributors were going through a lot of mergers and acquisitions, we used to say "someday it will be one giant manufacturer calling on one giant distributor!" And in the first quarter of 2012, two national retail broker organizations made the long-anticipated move into the foodservice arena, signaling an accelerated rollup of that traditionally fragmented, independent industry (see "Acosta is All In" below).

So it should be no surprise that the number of independent operators has fallen by over 1% in 12 months.

The fact is, the foodservice industry is tough because there are so many manufacturers, distributors, brokers, and operators competing for a fixed amount of consumption each day.  A little rationalization may be a good thing for the industry in the long term.

I don't know if we're killing the goose that lays the golden eggs, or just witnessing the "race to the bottom" that is turning a lot of foodservice businesses into commodities that are bought and sold based on price.  Probably a little bit of both.  But my gut tells me that once things start moving in the direction of fewer, larger companies operating on tighter margins, they usually don't go back.

I ain't sayin' it's good or bad; I ain't sayin' it's right or wrong, it just IS!

***"Capitalism attacks and destroys all the finer sentiments of the human heart; it ruthlessly sweeps away old traditions and ideas opposed to its progress, and it exploits and corrupts those things once held sacred."*** - Daniel De Leon

# "Acosta is All In"

Less than 3 months after Advantage Sales and Marketing entered the foodservice arena by joining forces with Waypoint, Acosta Sales and Marketing has partnered with the Venture Sales Group to do the same.  The people at the Top2Top Conference who talked about "waiting for the other shoe to drop" didn't have long to wait.

And now we almost certainly will see an accelerated pace of independent brokers making the decision to join one of the regional or national organizations.  Many people who are a lot smarter than me have written, spoken, and speculated about the forces behind broker regionalization and nationalization.  But one thing has become crystal clear to me.

A broker doesn't have to be "pro-regionalization" to make the life-changing decision to sell his business or merge with a neighboring company.  In some cases, offers are made which a broker can't refuse.  Or a broker's business may be struggling due to line losses as a result of regionalization, and when another agency tosses the lifeline, a merger becomes the surest way to ensure a future for the business and its employees.

Likewise, some manufacturers feel for the first time that they have lost the freedom (and power) to choose from a large pool of qualified broker agencies.  They're scrambling to get on board the regional/national agency train before it leaves the station.  Are they "pro-regionalization?"  Or just doing what seems prudent to avoid disaster?

So those foodservice sages who predicted that "we're just getting started" with changes in the structure of the foodservice broker agency industry were right.  As the rest of the story unfolds, we shouldn't waste any more energy trying to point fingers, place blame, or question motives.

Capitalism is messy and market forces can be cruel, but they are the machines that create new ways to compete.

## "The Last Word"

We talk and write a lot about the role of brands in foodservice.  Last week, we had lunch at a Cristof's Restaurant, where the owners have figured out how to brand their sandwich rolls - literally!


So take heart, manufacturers - where there's a will, there's a way!