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Happy New Year and thanks for reading Foodservice Marketing Insights. I trust your holiday season was restful and enjoyable, and that you're coming into the new year refreshed and ready to go!

This month, we've got a story about a pretty unique approach to supplying the foodservice marketplace, plus our ongoing exploration of cost-to-serve vs. pricing practices. And we're certainly watching the developments in the structure of the broker agency industry, and join you in figuring out what opportunities will emerge as a result.

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

"Some men see things the way they are and say why. I dream things that never were and ask why not."
- Robert Kennedy

"A Fresh Approach to Foodservice"

We foodservice veterans have it all figured out.

Manufacturers like to build volume with a few core products, so they can reap the benefits of long production runs. They only customize products for a few chosen customers, and only if the volume meets certain (high) thresholds.

They hire brokers to present their product lines to operators, because that's the most efficient and effective way of reaching local customers.

The manufacturer serves those operators through a network of distributors, so they can consolidate demand and make larger, lower-cost shipments. The manufacturer only has to carry a few hundred distributors "on the books," as opposed o having ordering, shipping, billing, and collecting relationships with thousands and thousands of operators. And the distributors store product in close proximity to the operators, cutting lead time and response to swings in demand.

The operators prefer this arrangement, because they can consolidate their product orders with a single distributor, so there is one PO, one delivery, and one bill to pay.

And that's the way it works in foodservice. Unless you're Custom Packaging & Products of Cape Coral, Florida.

We had the pleasure of meeting their CEO a few weeks ago, and got a lesson in new ways to market, sell, and serve in the foodservice channel.

Custom Packaging and Products offers bags, sandwich wrappers, deli paper, and related products to foodservice operators. Everything they do is custom-printed with the operator's logo, and with a ridiculously low minimum order (often one case!) They have targeted the single-unit operators and very small chains who cannot meet the minimums required by most other printed paper suppliers.

How can they possibly be successful with this model?

Let's go back and contrast Custom Packaging's "Go to Market" strategy with the traditional approach:

- Long production runs? No way. Custom Packaging runs a shop that thrives on constant line changeovers, and they do it with very few people. They've just figured out how to make it work.
- Broker representation? They tried it and it doesn't work, for the brokers OR Custom Packaging. But they're absolutely maximizing the use of internet technology not only to get the word out to operators, but to set up first-time customers, handle all orders, and get paid. They operate without a Customer Service or Credit & Collections department.
- Distributors? They're not interested in trying to handle hundreds of small-volume, customized products. But many distributors are happy to help sell the products to their operator customers, who receive LTL or parcel shipment directly from the Custom Packaging shop. The distributors handle the ordering and billing, and make a markup for their effort.

- Operators? They're happy to place a hassle-free order on the Custom Packaging site, and pre-pay with a credit card. Or they can give the order to their distributor. Yes, it's one more vendor and delivery to deal with, but it's seamless and therefore painless for the operator.

Clearly, this is not a model that will work for everyone in the foodservice business. In fact, there are a lot of reasons why it won't work for most established foodservice manufacturers.

But both new entrants AND established companies should take a lesson in deconstructing the roles of the foodservice channel players and unbundling the traditional service model. And there's an equally powerful lesson in web-based marketing and order administration.

It's not easy to escape the bounds of our traditional thinking, but it helps to have a successful example of how things can be done differently. Custom Packaging and Products is just such an example. You can check them out by clicking here.

How Much is "Too Much?"

For many years, we've been advocating that manufacturers need to understand their total cost to fulfill orders of various types and sizes. Armed with this information, they are then in a position to establish prices and order policies which reflect these costs. And in so doing, they can influence customer order behavior and recover the high cost of filling small orders.

As we've continued to study manufacturer after manufacturer, it has become very clear that the cost gap between Truckload and Minimum orders is usually greater than expected. And it usually exceeds the bracket price premiums on the published price list.

Another constant is that most manufacturers proclaim "we don't want to make money OR lose money on freight."

Given all of the above, it would seem reasonable for a manufacturer to set his bracket prices to exactly match his fulfillment costs across various order sizes. Some manufacturers are able to do this, and it seems to work out fine for everyone.

But others have such high costs to fill minimum orders, that they risk "pricing themselves out of the market" if they attempt to recover 100% of their small-order costs. And for these manufacturers, a more nuanced approach is suggested.

If they have a successful redistribution program in place, we recommend working with their redistributor(s) to develop a joint approach to the problem. Some combination of an increased minimum and a joint manufacturer/redi pricing strategy can create a streamlined supply chain, lower costs, improved service, and no volume risk.

And with or without a redi program, some manufacturers choose to "under-recover" on their smallest price brackets. To the extent that the smallest orders typically come from smaller, independent distributors, this makes strategic sense because:

1. The manufacturer is probably not spending as much on marketing and other support as he is with the larger distributors
2. There is value in maximizing the number of distributors in a given market, to ensure that you are able to reach the maximum number of operators
3. Independent distributors can act as a counterweight to the larger, more powerful distributors when it comes to pricing and marketing manufacturer brands vs. distributor brands

So it's a combination of fully understanding cost to serve plus thinking strategically about price structure that allows a manufacturer to make the most informed decisions about how to go to market.

Wond'ring Aloud

There are probably well over 1,000 manufacturers serving the foodservice market, and only a few dozen have consumer brands that are "household names." Another few dozen have established strong brand presence among foodservice distributors, operators, and brokers, but their names are not known to the average consumer.

And it's no secret that the role of brands in foodservice is quite different than in the retail channel, as very few brands are seen by the people actually consuming the food.

But most broker agencies have placed a lot of emphasis on having at least a few well-known consumer brands among their stable of manufacturers. The presence of even one leading brand name adds credibility, and the common understanding among brokers is "we're known by the companies we represent."

Now we have the emergence of the first national foodservice agency, and many believe that at least one or two more will be established in the very near future. And while nobody knows how it will all shake out (least of all, me) there is a general sense that the large manufacturers with strong consumer brands are most likely to embrace the national agency model. If you accept that many of these companies are driven by a "retail culture," it's easy to imagine their foodservice people being pressured to adopt a broker strategy that is familiar and comfortable to senior management.

If all of the big consumer brand manufacturers were to migrate to a national model, where would that leave the independent agency?

First, with over 1,000 good-to-great foodservice manufacturers who still need local representation and may fear "getting lost" in a national organization.

But more importantly, with an opportunity to **build their own brands** and better differentiate themselves from their competitors. We believe that many brokers have allowed themselves to become commoditized, and viewed by manufacturers as "a set of interchangeable arms and legs."

If in the past they relied on a few strong consumer brands to put a halo around their company, in the future **the agency's brand** can put a halo around their manufacturer principals.

As the title of this article suggests, I'm just watching and wondering along with everyone else. If you'd like to chime in, click here and let me know what you think.

p.s.

We're guessing that most operators won't know or care if the agency rep in their kitchen is from a local independent or a national agency. But the independents who can figure out why it's important and what they can do that's new, different, and better will be on their way to building a successful future in the new world...