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## Foodservice Marketing Insights

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#### "The Retailization of Foodservice"

A "Foodservice Lifer's" look at Category Management, advocating open-minds and fresh perspectives

This month's Foodservice Marketing Insights is dedicated solely to the issue of Foodservice Category Management.

Here's the headline:

It doesn't matter whether we like it or not, believe it will work or not, think it's fair or not - it's coming and we'd better understand it!

Thanks for reading, and as always, let me know what you think. [Tell Dave](#)

*Dave*

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### Subheading

Foodservice Category Management is going to be tough on most manufacturers, broker agencies, and operators. And it's no picnic for the distributors who are driving it.

But then, real and necessary change is never easy, is it?

# "The Retailization of Foodservice"

***"Foodservice is a lot like Retail, just 10 years behind."***

We've all heard it, and for those of us who grew up in Foodservice it sounds like nails on a chalkboard.

That's part of the reason we said "the national broker model will never work in Foodservice." It's part of the reason we passively resist attempts to streamline and standardize product codes and specifications. And it's part of the reason such standard Retail practices as Efficient Order Programs and Vendor Managed Inventory remain rarities in Foodservice.

Look, we Foodservice lifers are rightfully proud of the distinctions that set us apart from our Retail brethren.

No consumer scanner data? We get our hands dirty and work hard to understand customers and competitors at the "real world" level.

Fragmented operator and distributor industries? We spend years building relationships and still rely on salesmanship to carry the day.

Operators need unique menu items? We customize products for chains and offer unique assortments at distributors to help operators differentiate themselves.

And until very recently, it was the local distributor Buyer who determined what to stock in his warehouse, with a healthy dose of support from the local broker and the manufacturer Sales Manager.

Since the 70's, our Retail friends have either shaken their heads condescendingly, or sneered cynically at the way we do things. But the few people who have crossed over "from the dark side" to work in Foodservice quickly learn that there ARE good reasons for a lot of our practices.

***But not for all of them.***

I've had the privilege of seeing first hand the Category Management initiatives being pursued by US Foods and Sysco. Both companies have made it crystal clear that they are blowing up the traditional ways in which decisions are made about:

- which products to stock
- how to manage manufacturer "marketing programs"
- which products and brands to promote
- how to define categories and product segments
- which products to discontinue
- how to set operator prices

Manufacturers, broker agencies, and operators are all left wondering how this will affect their business. And most of them are caught between believing "Category Management will never work in Foodservice" and fearing a world of pain as huge chunks of volume change hands and their power is taken away. The worst-case scenario is that both could be true.

Let's start with some common reactions, followed by my view:

**1. "It's not really Category Management."** True, on the Retail side Category Management is driven by scanner data which captures the purchase habits of consumers across a huge range of retailers and products. We have no such data in Foodservice, and distributors will rely on their own operator-level sales data and whatever Consumer Insights they can glean from their suppliers. It's not the same thing.

So perhaps the distributors could have called these initiatives something else, but the fact is that the ultimate goals are the same in Foodservice as in Retail: smarter, data-driven decisions about the optimum product mix to serve customers and maximize profits.

**2. "It's being driven by a bunch of MBA's, consultants, and Retail people, (you know, number-crunchers), not Foodservice veterans."** There is a lot of truth to this, as well. And with it comes the risk that costly mistakes will be made out of ignorance.

But these distributors are obviously bent on transforming their business models, and indeed the entire industry. What are the chances we Foodservice Lifers would make that happen? Precisely zero.

**3. "You can't make operators all buy the same limited product assortment - they differentiate themselves from local competitors by the products they serve."** Again, there is a lot of truth to this. I don't care if my next door neighbor buys exactly the same groceries as I do. But if we were both running restaurants, it would be a problem.

But hundreds of French Fry SKU's? Products put in stock because the manufacturer threw a wad of cash at the distributor? There has to be a sweet spot between "1 SKU for everyone" and the mess we have now. And we all know which direction it has to go.

**This is going to be a messy, painful process, but true change always is.**

And we've often written that true change usually only happens when a large customer demands it.

So we Foodservice Lifers need to come to grips with our "it's always going to be this way" mentality, vs. the "we can change it" mindset of the newcomers. It's a battle between:

History and Habits vs. A Better Way

Relationships vs. Data

Salesmanship vs. Cold Logic

Local Decisions vs. Centralized Decisions

Tactics and Deals vs. Strategies and Programs

...and most likely, we'll find a balance somewhere between the extremes. But with Sysco, USF, and others applying huge, unprecedented resources against Category Management there is no question the pendulum is going to swing hard in that direction.

So let's face the pain that is coming, especially to manufacturers and brokers whose product lines are "CM'd out" at the local branch of the corporate distributor.

Manufacturers and agencies who lose big chunks of business will face a dilemma. In the old days, they'd be tempted to torpedo the decision by throwing sales efforts (and cash) at LLO's and the local distributor branch, maintaining a foothold despite the goals of the distributor's corporate headquarters. IF the local branches are willing to buck the system this may work, but at the cost of probably removing yourself from future consideration as a Category Management Partner. And if the local branches toe the company line it will be a waste of time and effort.

Another strategy will be to go hard after the Tier 2 and 3 distributors with aggressive programs. This is a logical response, but it has more potential in some markets than others. And even if successful, the chances of making up all of the volume lost from the corporate distributors are pretty slim.

And brokers, more than ever, could be caught in the middle. A manufacturer who loses out might direct his brokers to aggressively "sell around" the Category Management objectives via LLO conversions in an attempt to force distribution. But if a broker also has lines that are "Category Management Winners" in other categories, he'll want to be careful about fighting city hall.

***Those who say "Category Management won't work in Foodservice" may be right after all - given our current model. All of these forces may ultimately bring about a change in the way manufacturers, broker agencies, and distributors relate to one another...a change which is yet to be defined. And again, more pain for all parties on the path to the new world.***

#### **So What Can Possibly Go Wrong?**

A lot, if the distributors aren't careful about finding the right balance.

Perhaps the biggest fear is that distributors will embrace and espouse Category Management publicly, but privately will continue to make product decisions based on "earned income" potential. This would just add complexity, cost, and uncertainty across the board, while offsetting the potential advantages of Category Management.

There is also legitimate concern that decisions made at Headquarters don't take into account the role of local broker support. Historically, local distributor branches held strong opinions about the various brokers operating in their territory, and this influenced their purchasing decisions. The proper role of brokers in the Category Management world is an open issue, but it cannot be overlooked.

The distributors themselves will have to confront the reality of disappointing their customers by discontinuing "pet products." When a large operator threatens to move his business unless the distributor retains certain products, will the distributor hold to Category Management principles and lose the customer, or cave in and continue to carry too large an assortment?

As the distributor reps take the Category Management story to the street, all of the data and logic in the world won't make up for an operator's pain in feeling that he's "not important enough" to his distributor. And are today's overworked, overburdened distributor reps equipped to explain a complex concept like Category Management to an overworked, overburdened operator?

### **The Bottom Line**

Debating whether Category Management will work in Foodservice, and arguing over whether it's "good or bad," "right or wrong" misses the point. This is the way US Foods, Sysco, and other corporate distributors are going to run their businesses, and the rest of us will need to adjust as they work through the details.

There will be winners and losers. What else is new? We're just playing by a new set of rules. The stakes will be much higher for manufacturers and brokers. Good if your line wins, bad if your line loses. There will be stumbles and adjustments along the way. We've got to stay on top of things. There will be pain. Yes, for manufacturers, brokers, operators, and the distributors themselves.

But if these distributors are successful in achieving their goals, would it be so bad for everyone if we get:

- fewer "dead SKU's" throughout the supply chain?
- "marketing programs" that really promote products and drive volume?
- true product innovation?
- transparency of distributor sales and operator purchases?
- clearer, customer-based definitions of products and categories?

It's time to stop debating and start preparing for some true change in Foodservice....whether we like it or not.

***That's what I think - now it's your turn - tell us what you think by [clicking here](#).***

***Want to go deeper on Category Management and other key Foodservice Issues? Join our Foodservice Insider Group and take part in an ongoing dialogue with manufacturers, distributors, brokers and others. [Click Here](#) for details.***

***We're preparing a study of manufacturer attitudes and responses to Category Management. [Click Here](#) if you're interested in seeing the report.***

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