

Introducing "Stirring the Pot," the new newsletter for Foodservice Sales, Marketing, and Supply Chain Professionals.

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Stirring the Pot

December, 2014

I published the first Foodservice Marketing Insights newsletter in 2003. For 11 years, I've written monthly commentaries about pricing, redistribution, trade spending, brokers, and myriad other topics affecting foodservice manufacturers, distributors, operators, and broker agencies.

Lately I've begun to feel that the monthly format was forcing me into repeating myself, or worse, "publishing for the sake of publishing" without having anything useful to say!

I considered blogging as a means of providing shorter, more frequent communication but can't get my heart into it. Then I remembered that one of my long-time readers once said that the purpose of Foodservice Marketing Insights was "stirring the pot" and it hit me! In order to provide real value to you, I need to spur conversation and new thinking on important foodservice issues.

So "Stirring the Pot" will be published only when I've got something useful and interesting to say, and have had time to fully develop my thinking. Just as important, it's going to ask you to do some thinking and respond to a few questions. In this way, we can get a dialog going and I can share reader responses (anonymously, of course) in future issues.

Thank you for being a loyal Foodservice Marketing Insights subscriber, and I hope you'll stay with Stirring the Pot as well. Let me know what you think!

Dave

p.s. Remember that all of my Foodservice Marketing Insights commentaries are archived on my website's [library](#), organized by topic.

Who's Afraid of Price Increases?

Thinking Through the Volume Risk

Nobody **LIKES** price increases. Certainly not the distributors and operators who are on the receiving end, but also not the manufacturers who have to announce and implement them.

The promise of increased revenue is offset, and I would say *outweighed*, by the fear of lost volume all the way down the supply chain from manufacturer to distributor to operator. Certainly manufacturers calculate volume loss into their P&L projections when planning price increases. And I've heard it said that "a price increase won't stick unless it is accompanied by some volume loss."

But how much do manufacturers (and for that matter, distributors and operators) *really know* about what happens when they push a price increase downstream? Do manufacturers understand (or even ask) how

We are increasing prices because ...



Manufacturers, Distributors, Operators, and certainly Brokers live in fear of raising prices, mostly because of the risk of lost volume. But who really understands where and how volume loss occurs? And if we understood it better, could we minimize the risk???

distributors determine which operators will feel the price increase vs. which will retain current prices while the distributor takes a margin hit? Or which operators will be offered a lower-priced alternative product so they don't shop elsewhere? Or what will trigger a distributor to "shop the line" and bring in a new competitor?

Those operators who DO receive a price increase must decide when to absorb it, when to make changes to menu offerings and prices, and when to shop elsewhere. How many manufacturers are talking to operators to gain their perspectives about price increases?

And what about consumers? We all like to talk about price elasticity, but how much do manufacturers really understand about how menu prices impact consumer choices?

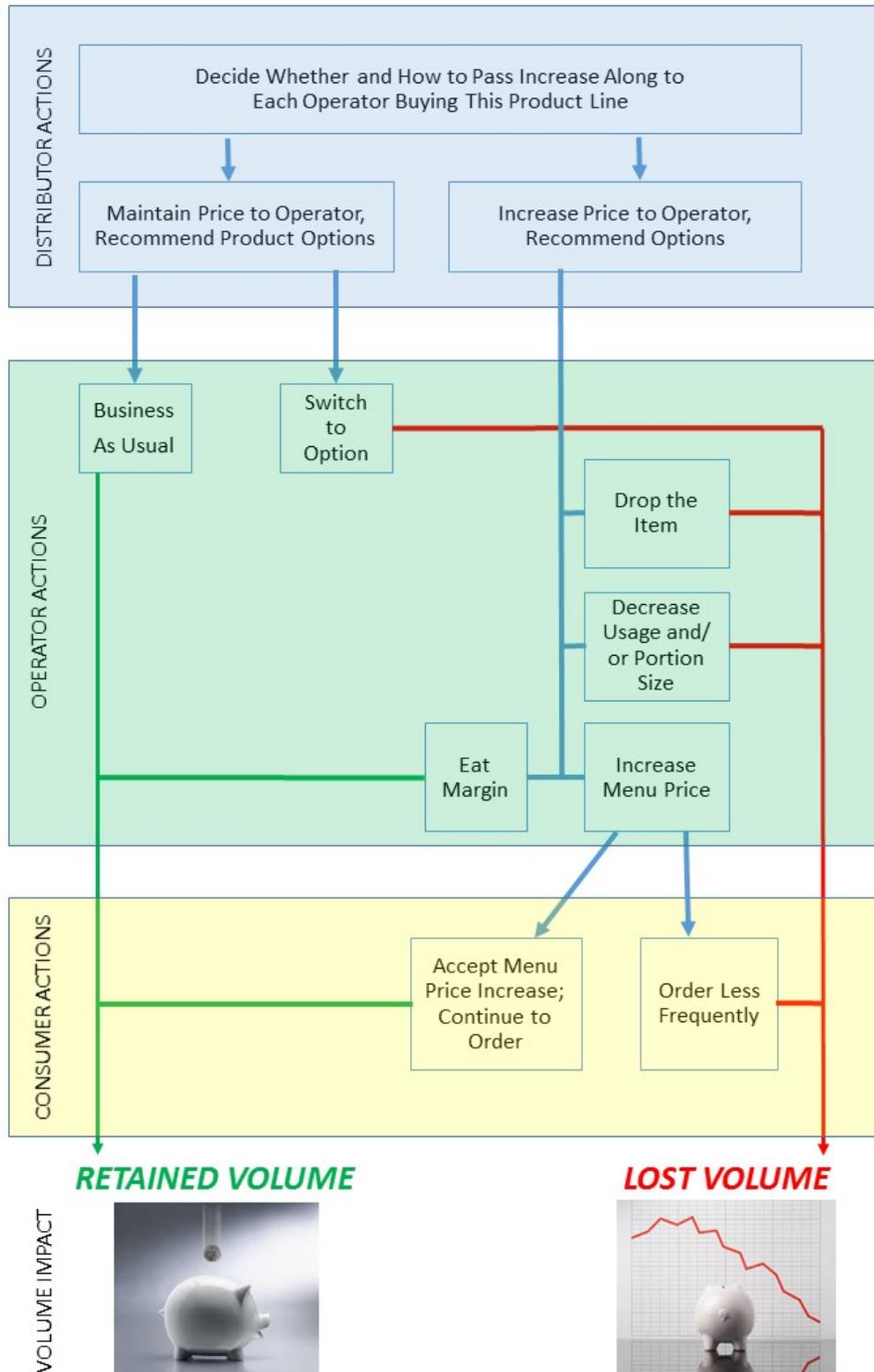
What follows is an admittedly oversimplified flowchart showing just a few of the decisions that must be made along the way, and their impact on manufacturer volume.

As I discussed this with colleagues, it became clear that this flowchart would look different for:

- Center of the Plate items vs. Ingredients
- Products which are priced a la carte (like desserts) vs. side dishes
- "Commodity" items where all manufacturers generally move prices together
- Disposables (paper goods) and Back of the House items (jan-san supplies) vs. Menu Items

That said, I invite you to take a look and let me know what you think:

Anatomy of a Price Increase (How Manufacturers Can Lose Volume)



In a perfect world, a manufacturer would talk with his distributors and discuss how they plan to deal with

the price increase. They would discuss large-volume operators and develop strategies for minimizing the impact of the price increase at each. Then they would visit these operators and learn how they plan to absorb the increase, pass it along, or make menu changes to soften the blow.

But the Foodservice Channel is a long way from a perfect world! More typically, manufacturers announce the price increase to distributors then plan to spend as necessary to protect volume. Distributors decline to share their pricing strategies with suppliers because "it is none of their business." And everyone (operators included) makes their best guess about the proper course of action and moves on, without ever understanding whether and where the volume loss occurs.

I'm itching to conduct a study whereby we follow a price increase down the supply chain, documenting responses and volume results at the distributor, operator and consumer level. But I'm realistic enough to know it will require a level of cooperation and information sharing that is rare to non-existent in our industry.

SO WHAT DO YOU THINK?

1. ***Am I overstating the issue, and do you feel your company DOES have a firm grasp on where volume loss occurs when price increases are implemented?***
2. ***Is it conceivable that a few manufacturers and distributors would cooperate in a study to at least begin to flesh out how this all works? (Perhaps spurred on by our industry associations?)***
3. ***Or am I just whistlin' Dixie???***

I welcome your comments, criticisms and observations; just [click here](#) to email me. And be assured that any responses used in future issues will never identify you or your company.

Thanks again for reading and have a safe and happy Holiday Season!

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