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"Protect Yourself" - Thoughts from Blacksmith regarding best practices in trade spending

A wise man once said, "in this season, those of us who work in the food business should be thankful for both our work and our food, because many people can't get enough of either." To which I say, "Amen!"

And I'll take this opportunity to thank all of my clients who have kept me so busy this year, and all of the FSMI readers who provide encouragement, questions, and criticisms - you keep me on my toes.

This month, I have some observations about the continuing broker agency regionalization phenomenon. I don't know if it's "coming to a head," but it's certainly changing a lot of manufacturers' and agencies' worlds. We'll look at contrasting viewpoints, and provide a link to an interesting commentary from Technomic and the FSMA.

Then we'll turn to an older, but still critical issue: trade spending. Just when you thought there was nothing else to be said, Blacksmith has come out with a couple of thoughtful papers about segmenting distributor customers, and protecting yourself against legal risk.

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

Dave

"The best part is still ahead of me - I haven't experienced my good old days yet."

- Luther Vandross

"It is ON!"

Agency consolidation and regionalization continues to impact traditional manufacturer/agency/distributor relationships, and our ways of thinking about how we go to market.

We've got agencies making decisions about merging and expanding (or not). And manufacturers electing to move to fewer, larger agencies (or not). And even large distributors suggesting to their suppliers how they ought to appoint agencies to their various locations.

There is clearly no "invisible hand" shaping a new order in the foodservice industry. Rather, there are hundreds of individual decisions being made, the sum of which will determine what our industry looks like in the future. It's interesting to think about how this new world will be different from the world we've gotten used to.

For starters, when a manufacturer elects to pursue a strategy of fewer, larger agencies, it sets off a situation in which an agency loses the line through no fault of his own. In the good old days, an agency who did a great job with a line in his own market felt secure, regardless of what was happening in other markets. Today, agencies who have years of success with a line can lose it overnight due to a national strategy decision. The phrase "think globally, act locally" has never meant more!

Manufacturers who are going this route cite "a higher level of agency sophistication than many smaller brokers," and the promise of "consistent procedures, communication, and execution."

Cynics suggest that some of these manufacturers are merely sacrificing future growth for the promise of reduced costs. Some have said "this looks like a good strategy in a bad economy, but once the business picks up, will the manufacturer be satisfied with his results, especially if he's gone from a Top 5 line to a middle-of-the-pack line?"

Very little is for sure, but two things seem pretty clear to me:

1. Even if a manufacturer becomes disenchanted with a regional agency strategy, it's hard to imagine many going back and rebuilding a network of 40-50 agencies, and adding Regional Sales Manager positions in the future.

2. Larger agencies have a new level of power in the marketplace.

More than ever, foodservice manufacturers (and distributors) need to be tuned into the reality of the broker agency's world, and how it is changing.

For much more on related topics, I suggest you **click here** to read Technomics' Distributor Intelligence Service report titled "Broker World Changing Fast." You'll find it under "New Commentaries" near the bottom of my Free Resources page.

"A penny saved is a penny earned." - Benjamin Franklin

"Protect Yourself"

I had a nice conversation with some folks from Blacksmith Applications last week. Blacksmith is one of the leading providers of software and processes to help foodservice manufacturers manage all of their trade spending funds.

Someone asked me "do you think trade spending is a critical issue to foodservice manufacturers?" and it got me to thinking. It seems to me that we don't hear as much complaining about out-of-control trade spending as we did a few years ago. But by no means do I believe it's because manufacturers feel they've "reined it in" or that it is no longer a major expense item.

Rather, I would surmise that over the past 5 years, some major manufacturers have purchased trade management systems. Many others are limping along with systems they've cobbled together using Excel, Access, and/or force-fitting their ERP system to "manage" foodservice trade. And while they may not have reduced overall spending levels, they are doing their best to predict, track, and report on spending with somewhat greater accuracy than in the past. This is in stark contrast to the days when trade spending was viewed as a "black hole," and was the source of many unpleasant year-end surprises.

In addition, it's possible that manufacturers are just tired of the fight, and have accepted that a certain (high) level of spending is necessary just to maintain the business.

That said, trade budgets remain one of the top cost items on the manufacturer P&L, and must be managed accordingly. So along with their software tools, Blacksmith provides regular thought leadership on issues around trade spending. Two of their recent publications are definitely worth reading; links are provided below:

Focusing Trade Funds on Your Best Customers provides a nice framework for classifying distributors and allocating trade spending levels accordingly.

Convenience is Expensive warns against using a "broad-brush" approach to programs which can land a manufacturer in hot legal water.

Both are recommended reading, and much more information is available at **www.BlacksmithApps.com**

Comments? Questions? Further Thoughts? Criticism? All are welcome at **Tell Dave**

My Website: **Franklin FS Solutions**

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