

An offer to download our report on Foodservice Pricing Practices, and reader thoughts on the value of Distributor Service Scorecards.

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Stirring the Pot

In Pursuit of World Class Pricing

The Next Frontier for Foodservice

This newsletter is focused on the results of our survey of Manufacturer Pricing Practices. As we suspected, most manufacturers are somewhere between the "Ad Hoc" (Level 1) and the "Control" (Level 2) stages of the 5 Level "World Class Pricing Maturity Model." But we are also encouraged that most respondents are beginning to pursue initiatives to build revenue via increased pricing sophistication and discipline.

But before we get into details, I want to share feedback on the "Chasing the Wind" commentary in my last newsletter. To refresh your memory, it was about Distributor Scorecards and the challenge manufacturers face in trying to accommodate varying service level targets for different distributors.



WHAT ARE YOUR TOP PRICING CHALLENGES?

1. Lack of Pricing Discipline (too much power in Sales, fear of volume loss, "everything is negotiable in foodservice")
2. Lack of Market Intelligence (competitive information, current market price levels)
3. Understanding Price Elasticity when contemplating price actions
4. Systems Issues (managing deviated

Below are a few reader comments, followed by my final thought:

prices and deductions)

The Chasing the Wind article was right on point!

Sr. Project Leader, Manufacturer

Great article and one that strikes close to home; from my perspective the suppliers do a good job.

Distributor Supply Chain Manager

Your solution of Manufacturers sitting down with Distributors to negotiate standards is OK however in reality Manufacturers should be sitting down with Operators who are demanding 100% service levels from the Distributors....not providing the distributors with forecasts...causing distributors to deal with movement spikes caused by unannounced promotions and couponing. It's not just the Manufacturer – Distributor Dilemma, it's the entire supply chain that needs better forecasting and communication.

VP Sales, Distributor

We love seeing how we are doing from the customer perspective (Distributor Scorecards). It is easy to argue away service level shortcomings if you only view from your own side of the table.

But on the other end of the spectrum, we have customers who order late or add on late and want to hold us responsible for fill rates on those orders rather than only on the orders placed within our Ordering Policies. The failings from both sides is a selfish perspective for how you look at the issue.

If we are ever going to gain agreement on the issue of supply chain efficiency metrics then we need to focus on the middle ground. I would propose that IFMA/IFDA align on criteria for scorecards that everyone can agree with; only then can we really feel comfortable with charges to offset inefficiencies caused by deficiencies. And that is a two way street for sure that will lead to real improvement for both sides.

One caveat I would proffer though: Foodservice comes with a required level of service and that is a cost of doing business we all need to accept; the trick is agreeing on what is a reasonable cost to shoulder and what is an encumbrance that has to be repaid.

The vast majority of operators are not great business people whose strong suit is organization and finance. We as suppliers and distributors should know that by now and we had better embrace the reality of our marketplace and factor that in when we sit down in the board room. Which leads me to one of my primary gripes about the distributor community these days who run inventory at very low levels and try to push the expense of their customer service to the manufacturer in the form of constant late orders, late add-ons and moving appointment times around on deliveries “so they can take care of their customers”. If they really wanted to take care of them they would keep more safety stock!

Sales Director, Manufacturer

The Last Word:

It's all great feedback and I can't argue with any of the points that were raised. But after decades of observation, I'm pretty much resigned to the notion that creating significantly more accurate forecasts in foodservice is impossible. If not impossible, then not worth the effort for any individual operator, distributor, or manufacturer who has "gotten by" over the years with our present practices. Because as with so many other initiatives designed to improve our industry, unless everyone's on board the benefits to any one company are limited.

"We had better embrace the reality of our marketplace" rings true and as I've written before the best companies are at least as good at *responding* as they are at *planning*!

In Pursuit of World Class Pricing

The Next Frontier for Foodservice

Over the past year, I've been working with Pricing Solutions, LLC on projects related to Foodservice. We suspect that many foodservice manufacturers and distributors have a great opportunity to build profitability by learning and applying the World Class Pricing principles taught by Pricing Solutions.

To test our hypothesis, we conducted a survey of foodservice manufacturers regarding their pricing practices; the results are interesting, if not surprising. Among respondents, we found a fairly wide range of responses to many questions, indicating varying levels of pricing sophistication. But in general, it's fair to say that most foodservice manufacturers are working at the "Ad Hoc" or "Control" levels, while striving toward the "Value" level.

This means that in our industry, a lot of pricing decisions continue to be made on a one-off basis, without a coherent pricing strategy to optimize the tradeoffs between volume and price. We also see that the Sales force maintains significant influence over pricing decisions at many companies. While there is nothing inherently wrong with this, in the absence of a rational and well-articulated strategy it inevitably leads to lower prices, margins, and profits. In addition, the ad hoc approach eats up an inordinate amount of time and resources every time the company responds to a pricing "opportunity."

Those that have progressed to the "Control" level have instituted guardrails within which pricing decisions can be made at various levels in the organization. This approach generally involves greater influence from the Finance function, which can present its own set of challenges when detailed market and competitive information is lacking.

The best foodservice manufacturers are beginning to operate at the “Value” level, which means:

1. Product prices are established which ensure higher margins for more differentiated, value-added products
2. Customer prices are established which ensure that customers who provide higher value to the manufacturer receive preferential prices vs. those that “cherry pick” or drive high fulfillment costs
3. Pricing practices are transparent, meaning that customers understand what criteria they must meet in order to qualify for lower prices
4. The Marketing Department carries primary responsibility for establishing prices

Another common refrain from the foodservice community is “we don’t have the data required to support sophisticated pricing approaches.” While it’s true that we don’t have scanner data to record every transaction, it’s also true that trade management systems and category management practices have generated a flood of data which potentially can be used to guide pricing strategy. Every manufacturer, including those who aren’t category captains, has a wealth of price and volume data “laying around” in various places and in various formats; it just needs to be swept together into an organized pile so smart people can make sense of it!

All of this is to say you should download a free copy of the report to see where you stand compared to peer companies, and perhaps fuel a new conversation about pricing practices within your organization. We'll also welcome the chance to answer any questions and offer our perspectives; just let us know if you'd like to schedule a phone conversation.

Finally Kirk Jackisch of Pricing Solutions and I will be presenting a foodservice pricing workshop at the FSMA Top2Top Conference in February – if you'll be there we look forward to talking with you.

The journey to improved pricing is clear and the rewards are great no matter where you currently stand. Happy New Year and we wish you continued success in 2016.

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