



Stirring the Pot

Still Crazy After All These Years

At last month's NRA Show, I enjoyed many conversations with clients and old friends. As I went over my notes, I found several recurring themes:

- * "We're targeting regional and emerging chains"
- * "There are always a few outlying units which are difficult to serve"
- * "We need to provide equal landed cost to all distributors, which is difficult to calculate due to unknown volume mix, order size and how each will be served"
- * "While redistribution would be a way to reach the low-volume distributors, we can't afford to put our chain business through redistribution"

That last one has been kicked around between manufacturers and redistributors for decades, but continues to confound and frustrate everyone!



You can dig in your heels and enforce a "no redi for chain business" policy. But do you really want a distributor ordering your street product from your redistributor, then giving you a direct order for 10 cases of chain product?

Here are some of the reasons:

1. Redistributors argue (correctly) that “cost is cost,” no matter what label is on the box or what the selling price may be. Therefore, a program that works for street business should also work for chain business.

2. For most programs, a portion of the distributor’s income comes from the spread between their purchased cost and their selling price. If this margin is lower on chain products than on street products, the distributor would want a higher allowance on special-priced business, where the manufacturer would hope for a lower allowance.

3. Some manufacturers feel (correctly or incorrectly) that their redi program costs a little more than handling the same business directly. They’re willing to accept that on street business due to the “soft benefits” of redistribution, but NOT on low-margin chain and private label business.

a. Some manufacturers still account for redi allowances in their Marketing budgets, which can make the cost appear 100% incremental – big mistake!

b. Many manufacturers don’t have a firm handle on the relative costs, revenue, and margin for “Redi vs. Direct” business for various order sizes
so they fall back on erroneous assumptions and beliefs

4. Many redi programs include a “Marketing Value” component, which reflects the value of increased visibility and potential access to new distributors. This makes sense for street business, but the chain business receives none of this value when it is handled by a redistributor.

5. Distributor billbacks are a humongous pain on direct business. Adding a redistributor in the middle can increase complexity and raise issues about the cost basis being used to calculate the billback.

6. On a more emotional level, manufacturers and distributors and sometimes brokers “take a haircut” on margin to land chain business and feel that the redistributor should as well.

Is it any wonder we're still struggling with this question after all these years???

So What's a Manufacturer to Do???

You can dig in your heels and enforce a “no redi for chain business” policy. But do you really want a distributor ordering your street product from your redistributor, then giving you a direct order for 10 cases of chain product?

You can cave in and allow redistributors to handle your chain product under the existing program. But you'll likely feel uncertainty and resentment, neither of which is good for a manufacturer – redistributor relationship.

Or you can do the work to analyze and understand your net revenue and costs to run chain business through redistribution vs. direct. You can use your findings to negotiate a mutually-beneficial deal with your chain, their distributors and your redistributor. You can then make an accurate calculation of your overall fulfillment cost and resulting national distributor pricing. This approach has a lot of moving parts, but the data is all available and the math is foolproof!

If you're struggling to resolve the "chain business through redi" question (or private label, bid, etc.) just [click here](#) and I'll give you a call. No sales pitch, just a chance to understand the issues, offer my perspectives and hopefully help you move ahead with confidence.

Wouldn't it be nice to put this issue to bed once and for all and move on to bigger and better things?

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