Pretty much everything I know about building a foodservice price list...

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Six Steps to A Great Price List

If you could “start from scratch” and recreate your price structure, what would you do differently?
OR - if you were starting a new Foodservice Manufacturer business, how would you like to build your price list?

Having worked with countless manufacturer price lists and price strategies for 4 decades, I can safely say that if I haven’t seen it all, I’ve surely seen most of it! And in my work I see a lot of opportunities for improvement throughout the process of developing price lists; improvements that can significantly increase revenue.

I started to write a “10 Common Mistakes…” article, but decided instead to tell you start-to-finish how I would do it given the opportunity to start from scratch.

First, a little background:

The vast majority of foodservice manufacturers use one or more of 3 price list structures:

1. National Bracketed Delivered
2. Zone Bracketed Delivered
3. FOB Plus Freight

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Broadly speaking, the National Bracketed price list works for most manufacturers for their Broadline street business. Zone pricing makes sense for low-density products shipped from a single location, where Total Fulfillment Cost varies greatly across geographies. And FOB Plus Freight is often used for products where pricing is tied to published market prices, such as cheese and protein.

The upsides and downsides of each structure are interesting, and I summarized my views years ago in my "FFS Price Structure Overview."

But this paper is about all of the steps that need to happen before creating that price list, regardless of format. If I were helping someone launch a new foodservice business, this is the process I would follow to create a great price list:

1. Get your Base Prices Right

Base price should reflect the price you would accept for a customer to pick up at the producing plant, before any movement to a forward DC and/or a customer. There are many definitions of "Base Price" but to me there are only 3 elements:

* COGS - Ingredients, Packaging, Labor (Direct and Indirect), Manufacturing Overhead
* Standard Sales & Marketing Cost
* Gross Margin

I have seen manufacturers fudge their Base FOB prices with "fake freight cost" and other padding, which may seem like a good idea but often leads to problems down the road. And some manufacturers choose to leave Sales and Marketing Cost out of the Base Price, then build one-off price lists for each customer based on individual marketing spending. While it's not a bad approach it is very complex to manage. For my money, it's better to build in a standard Sales and Marketing Cost recognizing that there will be minor "wins and losses," and reserve the right to create special lists to reflect special spending programs.

And Gross Margins should be established based on the degree of unique value, true differentiation, and pricing power inherent in each SKU. In some cases it can be done at the Category level, but where possible a SKU-by-SKU analysis will provide greater insight and ensure that you capture all of the value you've got coming to you.

A great practice which I've only seen a few times is to establish 3 tiers of Gross Margins and resulting Base Prices for 3 tiers of customers. If you classify each customer as "A, B, or C" based on clear criteria, you can ensure competitive pricing for your highest-value customers while capturing additional revenue from customers where you provide the most value.

Finally, two important clarifications:

1. While Base Price represents a price for your product sitting at the producing plant, we do NOT recommend using it for CPU's if you have National Delivered Pricing. As explained below, use of a standard FOB price for pickups will provide improper incentives and undermine your delivered price recovery. The Base Price is used to build up Bracketed Delivered Prices, but remains hidden from customers.

2. Gross Margin is to cover Overhead Costs and provide profit, and should not be mingled with other costs. One client told me "some of our products have enough margin built in that we can cover additional marketing expense without increasing prices." To me, this is wrong minded; Gross Margin reflects value provided and must be preserved!

2. Define your Price Brackets

Almost without exception, when I ask clients how their price brackets were established, no one knows! But whenever and however it was done, chances are good that volume and cost patterns by order size have changed over the years.

So I always start by analyzing Delivered Volume, Number of Shipments and Total Fulfillment Cost (TFC) in 2,000 lb increments.

Because Base Price represents finished product at the producing plant, TFC must include Order Management, Deployments, Forward Warehousing and Customer Freight. While additional cost drivers exist, experience has shown that these 4 elements make up well over 90% of Fulfillment Cost.

Once we create a graph showing volume, activity and cost by order size, we look for breaks based on volume and cost and define the brackets accordingly.

A few words about "Unit of Measure" for defining Price Brackets:

While “Pounds” is the most common UOM, others are:
* Cases - this is OK if all products have consistent weight and cube, but that’s a rare occurrence

* Pallets - this makes sense for light, high-cube products which cube out a trailer before breaking weight, AND if customers order in straight pallets. If you’re building mixed pallets it may be difficult for customers to predict which bracket their order will fall into.

* CAW (Cube-Adjusted Weight) – this is effective for product lines with a broad range of densities (think Frozen Baked Croissants and Frozen Dough). CAW is a good way to allocate TFC to SKU’s based on trailer utilization (weight or cube). But most Sales people and some customers don’t like it because it’s cumbersome to explain and may not fit into existing systems

3. Set up Excel Price List Templates which contain Base Price and TFC per Bracket in hidden cells or on another worksheet

We create Excel templates which allow us to plug in SKU, Description, Weight, Cube and Palletizing info, and the price list will auto populate with Delivered Prices in each bracket. As Base Prices and TFC change, it's a simple matter to update the template and instantly create new price lists.
And if CAW is the appropriate way to assign TFC, you can still define your brackets as "lb" and have the appropriate calculations "behind the scenes."

4. Decide whether bracket prices will be "fixed" or "floating"

Fixed (assigning each customer to a bracket for all orders) is somewhat less complex to manage, but weakens incentives for customers to place larger orders. Floating (assigning bracket based on each order size) is the best practice.

5. Develop Order Policies

Provide incentives for customers to order in the most efficient, lowest cost manner. If you have a redistribution program, you should set and enforce a minimum which incents high activity, high cost, low volume customers to switch to redi service.
Some manufacturers offer an "Efficient Order Program" which provides allowances for orders with full Truckload/1 stop, proper lead time, straight pallets, no PO discrepancies, etc.

6. Calculate Point to Point CPU Allowances

Using FOB pricing for CPUs in conjunction with National Delivered pricing is risky. Close-in customers are more likely to pick up because their cost to do so is less than their savings on Delivered vs. FOB price. But distant customers are more likely to take delivery because their cost to pick up would exceed their savings.

As a result your Customer Freight Costs will go up as you lose the short lanes which subsidize the long lanes and support national pricing.

Better to offer a CPU Allowance per lb, based on your actual freight cost for each customer from their Ship-From location. Best practice is to set a minimum (often higher than delivered minimum) to prevent excessive activity at your dock. If you use TL bracket as your price basis, you can also use TL freight rates as a starting place to establish allowances. From there you may elect to discount or gross up individual allowances based on particular customers and internal logistics issues.

Establishing your price structure in this way makes it easy to update price lists, as well as fine-tune any future price adjustments by customer and SKU, as opposed to an "across the board percentage."

You probably don't need to start over, but are there parts of your pricing process that you could clean up to build revenue? Click here to set up a conversation, or call me any time you'd like to kick these ideas around.