Price Bracket Structure Practices of Foodservice Manufacturers

January, 2001
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Why Study Price Bracket Structure?

- Many manufacturers express uncertainty over both the origin and the suitability of their Price Bracket Structure
  - how well it reflects actual costs
  - how it influences ordering patterns
  - how it compares to competitors’ and peer companies’ structures

- There is a wide range of concerns about the impact of an improper structure
  - “losing money on small orders”
  - “leaving money on the table”
  - “unnecessarily pricing ourselves out of the market”
  - “obscuring our true P&L performance”

- Price Bracket Structure has a direct impact on redistributor programs
What we did

• Studied the Price Bracket Structure of 22 foodservice manufacturers
  - dry, frozen, and refrigerated
  - major companies to local businesses

• Conducted fax surveys and telephone interviews with 9 key manufacturers

• Called upon personal experience with additional client companies

• Studied findings to draw conclusions and implications for foodservice manufacturers
Key Findings
Units of Measure

- “Order Weight” is the predominant measure for defining price brackets for dry, frozen, and refrigerated products
  - “Number of Cases” is also used by a few manufacturers
  - “Order Cube” is used by at least one Frozen Baked Goods manufacturer, due to low-density products which “cube out” a truck before breaking weight
Definition of Brackets

• There is clearly **no industry standard** (see attached charts) for defining price brackets
  - but there is some tendency toward the following:
    • Bracket 1: 2,000 lb-5,000 lb
    • Bracket 2: 5,000 lb-10,000 lb
    • Bracket 3: 10,000 lb-20,000 lb
    • Bracket 4: 20,000 lb-40,000 lb
    • Truckload: 40,000 lb +

• Most manufacturers have 4 or 5 brackets
  - 2 to 4 between minimum and 20,000 lb
  - 1 or 2 between 20,000 lb and Truckload
Definitions of “Minimums” and “Truckloads”

- Despite popular talk about outsourcing small orders to redistributors, most manufacturers maintain a minimum order of only 2,000 lb
  - One major supplier has a dry minimum of 22,000 lb, but a frozen minimum of only 150 cases (2500 lb)

- While a Truckload order is traditionally defined as 40,000 lb, 42,000 lb, or even 44,000 lb, many manufacturers offer “Truckload” pricing on orders over 30,000 or even 20,000 lb
**Price Premiums**

- When it comes to assigning price premiums (over Truckload pricing) to each bracket, “anything goes”
  - there is no standard industry practice
  - many companies have no standard within their product line
    - or even within categories on their price list
  - for many companies, there is no consistent relationship to case weight, cube, or price
    - some set their premiums on a “$/lb” basis
    - others on a “$/case” basis
    - some on a “% of price” basis
Development of Price Premiums

Most manufacturers are unable to articulate a process for developing the price premiums for their brackets

- “we stuck our finger to the wind”
- “it’s probably based off of our Retail price list”
- “tradition - we’ve always done it this way”

...but customers rarely question the rationale behind Price Bracket Structure
**Cost Drivers**

- Most study participants spoke of “hard” and “soft” costs which drive higher prices for smaller orders and multi-stop loads
  - **Hard Costs**
    - carrier stop charges
    - out-of-route miles
    - unloading costs
    - lower trailer utilization
    - most of these are “buried” in higher freight rates on carrier invoices
  - **Soft Costs**
    - order management costs spread over fewer cases
    - credit and collection costs spread over fewer cases
    - poorer inventory control
    - excessive product handling/damage/temperature abuse
    - more late deliveries/missed appointments
Cost Drivers (continued)

• Soft Costs are hardest to quantify, and hardest to manage or change
  - “even if we had all Truckload orders, would we cut our Customer Service and Credit staffs?”
  - “when we switched a big chunk of volume to redistributors, we didn’t reduce headcount”

• Although Hard Costs are easier to measure, it is difficult to allocate them to various order sizes
So Price Bracket Premiums are not tightly tied to Cost Drivers

- One participant felt they had a “very tight cost/price relationship,” based on a recent review.
- Most, however, expressed uncertainty:
  - “no rhyme or reason to our price list”
  - “we have no idea”
  - “we need to review that”
  - “there is no direct relationship between costs and prices, but we more than cover our costs on small orders”

- Some felt that their margins on Truckload orders were sufficient to subsidize smaller orders.
- While others believed they were “making margin on freight” across all brackets.
Relationship to Redistributor programs

- Most major manufacturers are also selling through the Redistributor channel
  - responses ranged from “a small amount” to “a major part of our volume and a key strategy”

- Many are uncertain about what order size should go through Redistributors rather than ship directly

- Most expressed uncertainty about the economics of their Redistributor programs

- Because they typically base Redistributor programs off FOB or Truckload pricing, it is not unusual for manufacturers to consider Redistributor margins when building Price Bracket premiums
Implications
**SO WHAT?**

“What’s wrong with a haphazard approach to Price Bracket Structure if everyone’s doing it and nobody’s complaining?”

- Franklin Foodservice Solutions believes that many manufacturers are turning a blind eye to opportunities and threats that are hidden in their Price Bracket Structures.

- By tolerating weak linkages between their Supply Chain/Logistics-driven costs and their Marketing/Sales-driven pricing decisions, they obscure true P&L performance.

- As Supply Chain performance “comes under the microscope” from major customers, these inconsistencies raise questions of credibility.

- Command of total cost for various order sizes can provide competitive advantage and guide intelligent pricing decisions.
**Implication #1: Lack of industry standard represents opportunity**

- Because distributors place great value on “small orders and fast turns,” the lack of a standard formula for developing price premiums provides latitude for manufacturers to increase price premiums on smallest orders and generate new revenue
  - at the risk of further obscuring true P&L performance
  - within boundaries set by competitors’ price lists

- Conversely, manufacturers have the opportunity to reconfigure their Price Bracket Structures to reflect true Supply Chain and Order Management costs
  - to gain competitive price advantage
  - to demonstrate command of Supply Chain costs
  - to improve clarity of P&L
  - to sharpen focus on controlling Supply Chain and Order Management costs
Implication #2: Current Practices hamper Supply Chain decision-making

- While manufacturers who use Redistributors agree that the smallest, most costly orders should be outsourced, they often have “higher-than-necessary” price premiums
  - as a result, they “get backwards” and are hesitant to offload small, higher-margin orders

- Likewise, Customer Pickup Allowance programs are often called into question
  - “Should we make them more attractive and provide greater incentives to pick up?”
    - “If CPU’s increase dramatically, won’t we lose our margins on delivered orders?”
  - “What order sizes do we prefer to have picked up?”
  - “Should CPU pricing be based on order size, geography, or just a flat amount?”
Implication #3: Loose definitions of “Truckload” orders drive higher costs

- Many manufacturers offer “Truckload pricing” for all orders over 20,000 or 30,000 lb
  - while many are pooling additional orders on these loads, customers are not bearing the additional costs driven by stop charges, etc.

- Even those with “40,000 lb+” Truckload brackets generally allow Truckload pricing once a customer “gets close” (within 4,000 lb)
  - if freight rates are based on 40,000 lb, the manufacturer bears a 10% freight cost premium for these customers
Implication #4: A rational Price Bracket Structure can still yield freight margins

- Manufacturers should understand and quantify whether they are subsidizing freight, breaking even, or making freight margins across their Price Bracket Structure.

- If a manufacturer discovers that freight is indeed a profit center, it is feasible to rationalize the Price Bracket Structure to better reflect actual costs, while maintaining the “freight margin” if desired:
  - adopting a rational Price Bracket Structure will simplify decision-making and future price adjustments.
**Franklin Foodservice Solutions, Inc.**

**Background**

Dave DeWalt has 15 years of success in Marketing and Sales for Sara Lee Bakery, Vlasic Foods, and Awrey Bakeries, with responsibilities including new product development, management of national accounts business, and strategic planning.

Additional consulting experience with EDS Management Consulting Services and A.T. Kearney has provided a unique ability to design and conduct projects utilizing formal consulting techniques, practical knowledge, and an excellent network of industry experts who are available to contribute to a client’s success.

Mr. DeWalt is building his consulting practice by providing food manufacturers with marketing and distribution strategies and solutions. Clients include Sara Lee Bakery, Campbell Soup Company, Kronos Products, Rich Products Corporation, SunBlush Technologies, and the Second Harvest National Food Bank Network.
Overview of Price Bracket Structures for 9 dry manufacturers
Overview of Price Bracket Structures for 8 frozen manufacturers