

Three Surefire Ways to Build Profit

From Your Existing Customers and Products



(By Aligning Sales, Marketing, Supply Chain, and Operations)

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Most food manufacturers have a passion for pursuing new customers and inventing new products. Unlike the everyday, transactional nature of dealing with existing customers and products, working on “something new” is exciting and energizing. But it is also a high-risk activity, with a high failure rate for new products and very high costs for attracting and converting new customers.

By contrast, business conducted with existing customers and products is often “put on autopilot,” as Sales and Marketing focus on the greener grass in the next pasture.

In fifteen years of working with food manufacturers, I have found that most of them leave revenue dollars on the table and incur unnecessary costs in the everyday execution of their core business. And it’s often because their Marketing, Sales, Operations, and Supply Chain people are not aligned around a common understanding of Customer Needs and Supply Chain costs.

When we get these people in a room together, you can almost hear the wheels turning:



Certainly, there is nothing wrong with the healthy tension that exists among departments, if it drives discussion and shared understanding and decision-making.

But for many companies, these differences of opinion result in an impasse. People get weary of going around in circles whenever they try to address these issues. As a result, key decisions are made “on the fly,” often as a result of short-term pressures or coercion. Each Team makes decisions which harm the other Team’s prospects for making their numbers.

That’s why we often hear statements like:

“Every time we start a SKU-rationalization project, it ends up becoming a SKU-justification project!”

“We just started a SKU-rationalization project...for the third time this year.”

“Our Sales people use Pickup Allowances as Marketing Allowances – they offer deals that are way out of line with our freight cost savings.”

“If we had a decent price structure and the guts to enforce it, we could eliminate all of these small orders.”

“Some of us love having a redistribution program, others think it’s a waste, and most of us just aren’t sure.”

We have found that there are three levers which can squeeze more profit from core businesses. Virtually all companies have these levers at their disposal, but they fail to pull them as often as they should. In part, this is because they require rigorous analysis and people do not have the time and/or expertise to do it. Or perhaps someone has reached for the lever in the past, only to have their hand slapped by someone “from the other side” who fears the consequences.

The Three Levers are:

1. **Optimizing the Product Line** – “pulling the weeds” which sap resources and depress profits
2. **Aligning Price Structure and Policies with Supply Chain Costs** – to maximize efficiency and ensure that service costs are recouped
3. **Tuning up the Redistribution Program** – making sure all possible target customers are being served by redistribution, that all growth opportunities are being pursued, and that the allowance reflects the value of redi

Let's take them one at a time.

1. Optimizing the Product Line

These are the projects often referred to as "SKU Rationalization."

We prefer "Product Line Optimization" in part because this name recognizes the fact that we are dealing with "products," not "SKU's." When Marketing and R&D are developing new products, there is an air of excitement leading up to their introduction. In their first months of life, they are often "nurtured" with extra Sales attention and Marketing spending.

Only when someone determines that certain products are underperforming vs. expectations do they start to call them "SKU's;" a term which heightens Sales and Marketing's defensiveness and resistance to these projects.

But the fact is many manufacturers DO have too many products. In their never-ending search for new sales revenue, Sales and Marketing add products at a much faster rate than they discontinue them. And over time, this creeping product line proliferation causes:

- Complexity in management of raw materials and finished goods inventories
- Excessive plant downtime due to shorter runs and more changeovers
- Lost sales due to out-of-stocks
- High inventory carrying costs

Even when everyone agrees that the product line is too big, companies can resist addressing the problem because:

- It's hard enough to make your number without intentionally giving up sales volume
- It's easy to see the revenue loss on your P&L, but the cost savings are buried in the COGS, service level improvements, and variances from standards
- The pain of too many products is felt in Supply Chain and Operations, but the cure rests with Sales and Marketing

When all of the stakeholders agree to follow an orderly process and deal with the same information, however, good things will happen.

People will understand the product line "from the other guy's point of view," decisions will be made jointly, the problems associated with SKU proliferation will go away, and Sales and Marketing will present the changes to customers in a positive light.

The keys to a successful Product Line Optimization project are:

1. Use quantitative/financial data as well as marketing & sales input
 - Balance rational with emotional, “head” with “heart”
2. Focus on “problem products,” not the entire line
3. Get all parties dealing with the same information
 - Separate fact from myth, and bridge the “credibility gap” among departments
4. Be ready to take action to move products off of the “problem list”
 - Either by discontinuing, or implementing Action Plans to improve volume and/or Gross Profit
5. Predict the P&L impact of your decisions before pulling the trigger
 - Reduce the uncertainty and fear that often derails these projects
6. Use clear and complete communication once decisions are made
 - Internally: What is expected of support departments
 - Externally: To Sales and Customers

Sales and Marketing people usually enter these projects with a great deal of trepidation, fearing the backlash from telling customers they can no longer buy certain products. But with proper execution, they will find unexpected benefits.

Sales Managers, broker agencies, and distributor Sales Reps will sharpen their focus on winning products. Distributor slots can be filled with higher-volume products. Many (but probably not all) key operators can be converted to similar products. And the entire business will operate more efficiently.

We recommend that manufacturers optimize their product lines annually, early in the planning process. This allows Sales and Marketing to make better volume projections, Operations to make better production and logistics plans, and Finance to create a more accurate Operating Plan.

2. Aligning Price Structure and Policies with Supply Chain Costs

When we ask manufacturers to explain how their price bracket structure was developed, most have no idea. At best, they will cite some long-gone manager who “figured it out,” but failed to show his work by documenting his calculations.

More likely, they’ll say “it was like this when I got here.” And they’ll acknowledge that the price premiums across brackets are no longer related to their actual cost to serve (if they ever were). But with fuel and other supply chain costs rising quickly over the past two years, they have an uneasy feeling that they’re leaking dollars.

One problem is that manufacturers tend to look at their Cost to Serve as a single number across all order sizes and types. But a detailed analysis of freight costs always shows a significantly higher cost per pound for smaller shipments than for larger shipments. And when the administrative cost from order receipt to cash receipt is spread across fewer pounds, it further contributes to the higher cost for small orders. Finally, even warehousing costs can be properly allocated based on the amount of case picking activity (which is almost always highest on the smallest orders).

We have shown that once Total Cost to Serve is understood, price structure and policies can be adjusted to improve profitability. This works in two ways:

1. Distributors have incentives to order in patterns that minimize the manufacturer’s cost
2. If they choose to order in patterns that drive higher cost, they pay a higher price

A complete understanding of Cost to Serve by order size can be used to drive more than price structure decisions. An informed manufacturer will be able to calculate appropriate CPU Allowances (both at plants and DC’s), as well as a suitable order minimum. The decision over which customers should be served via redistribution becomes clearer. And special prices, contract prices, billback programs, and the like will be based on more than an “educated guess.” Of course, enforcing the new policies and adhering to the published price structure is critical to achievement of financial objectives.

Experience has shown that this analysis should be conducted prior to a planned price increase. Distributors and key operators respond more positively to price actions which are backed up by credible numbers, rather than general statements about “cost increases.”

3. Tuning up the Redistribution Program

By now, most foodservice manufacturers have an established redistribution program with one or more redistributors.

Like the price structure, the redi allowance may be based on some long-forgotten calculations. Or perhaps the volume served through redistribution has not met expectations, leading some to question the value of the program. Sometimes, large-order customers elect to buy from a redistributor, raising eyebrows at manufacturer headquarters.

Most commonly, the redistribution program is so well-integrated that manufacturers fall into an “out of sight-out of mind” attitude. They fail to monitor the number of customers served by redi, and the trends in volume per customer. If they have established a firm target order size for redi service, they may or may not check to see how well reality matches plans. And very few manufacturers are fully leveraging the marketing value of their redi programs by aggressively targeting new customers.

As a result, the redi program can get off-kilter in one or more ways:

1. The financial basis for the program no longer makes sense based on current prices and costs
2. The target order size no longer is appropriate given new prices and costs
3. A significant amount of redi volume is going to large-order, non-target customers
4. A significant amount of small-order, redi-target customers are still buying direct from the manufacturer

Over the past 15 years, we have performed many “Direct vs. Redi” Financial Analyses on behalf of foodservice manufacturers. In addition, we have perfected the RediMonitor™ program which provides detailed insight into the customers being served via redistribution, including trends in numbers and volumes. Used together, these tools shed light on opportunities to build volume and reduce costs, including:

1. Adjusting the allowance program, pricing practices and/or target customer definition to better reflect current financial reality
2. Encouraging larger-volume customers to use redi for fill-in purposes only

3. Encouraging small-order, high-cost customers to convert to redi service.
4. Recapturing redi customers who have stopped buying
5. Building volume-per-customer for customers served via redi
6. Working with the redistributor to penetrate new customers

Tuning up the redistribution program offers the potential to both build volume and reduce costs; few initiatives provide both opportunities. And when Sales, Marketing, Supply Chain, and Finance are aligned behind the role and value of redistribution, its impact on the business is maximized.

None of this is rocket science, but it isn't child's play, either. Franklin Foodservice Solutions has a long history of helping foodservice manufacturers improve profitability by aligning Sales and Marketing decisions with Supply Chain realities. We bring proven processes, an outstanding ability to work with people and build consensus, and a positive, hardworking approach which rubs off on the people we serve.

If one or more of these programs sounds like it might work for your business, we can help you explore the possibilities. When you click on the link below and send us some basic information, we prepare a complementary Strategy Session. In this 30-60 minute phone call, we'll provide our perspectives, suggest actions you can take on your own, and answer any questions about our services. There is never any obligation, and all information will be held in strict confidence.

To request your Strategy Session, please [click here](#).

Dave DeWalt



Dave DeWalt is President of Franklin Foodservice Solutions, a firm that serves food industry clients on a variety of strategic, marketing and distribution-related projects.

Franklin Foodservice Solutions has become nationally recognized for its expertise in helping foodservice manufacturers align Sales and Marketing decisions with Supply Chain realities. In addition to developing customized redistribution strategies and programs for many major manufacturers, Mr. DeWalt regularly speaks and leads seminars on the topic, and has been published in Food Logistics Magazine.

Mr. DeWalt is author of Understanding Foodservice Redistribution, which went to press in February, 2007, and Understanding Jan-San Redistribution, published in February 2008.

Dave also publishes the monthly “Foodservice Marketing Insights” newsletter; subscriptions and back issues are available from the “Free Resources” page of his website, www.franklin-foodservice.com.

In addition to his consulting work, Dave founded and facilitates the SMART Share Group, a consortium of foodservice brokers that works together to address common business issues.

Prior to launching Franklin Foodservice Solutions, Mr. DeWalt was an Associate with A.T. Kearney, serving clients including Sara Lee Bakery, Unilever Foods, and General Motors. Food industry experience includes fifteen years in Marketing, Sales, and Executive positions with Sara Lee Bakery, Vlasic Foods, and Awrey Bakeries.

Mr. DeWalt has developed a unique ability to design and conduct projects which provide measurable results for his clients. He is able to draw on formal consulting techniques, practical knowledge, and an excellent network of industry experts who are available to contribute to a client’s success. Dave has developed a versatile, action-oriented and pragmatic approach to problem-solving. He has earned a reputation for his ability to tackle a wide range of problems, and engages exceptionally well with people from the boardroom to the plant floor.

Dave has a Bachelor’s Degree in Hospitality Business from Michigan State University, and a Master’s Degree in Marketing and Finance from the Kellogg School of Management, Northwestern University. Mr. DeWalt, his wife and two children live in Sanibel, Florida.