Redistributors offer numerous cost and inventory advantages to both food manufacturers and foodservice distributors.

By Dave DeWalt

The Redistribution Advantage

Want to offer your customers thousands of more products—without expanding your warehouse or making a huge financial investment? Then maybe it’s time to turn to a redistributor—manufacturers as well as distributors are calling upon redistributors more and more these days.

In fact, redistribution in the foodservice channel alone is a $5.5 billion industry in the United States, according to Technomic Inc., a Chicago-based marketing research firm serving the food and foodservice industries. Technomic forecasts a robust 16 percent compounded average annual growth between now and 2010 for the foodservice channel, says Gary Karp, vice president.

“This growth is driven primarily by the impact on the industry of the redistribution initiative of Sysco, which will open its first redistribution facility in 2005,” Karp says, adding that because channels like retail, club and convenience stores are more mature, their growth rates have stabilized.

Houston-based Sysco Corp., the nation’s largest foodservice distributor, is building a network that will feature a system of regional distribution centers designed to handle all of the less-than-truckload (LTL) volume that flows from manufacturers to the local Sysco branches.

Redistribution is an effective tool for handling cost-to-serve issues for high-cost customers whose volumes are low or who require extra special handling of things like mixed pallets or less-than-pallet loads—essentially anything resulting in a reduction of efficiency, Karp says.

Redistribution has evolved to the point that most foodservice manufacturers and distributors recognize its value. The majority of foodservice distributors, both large and small, purchase from redistributors; nearly every major manufacturer has likewise taken advantage of the benefits offered by redistributors.

As a result, the foodservice volume handled by redistributors has
toward “redi” (redistribution), which prod-

ucts to offer through redi and the financial ramifications of a redi program.

Distributors who struggle to meet minimum order weights, or who submit small
and infrequent orders, are obvious candidates for service through redistribution.

Those who buy in truckload quantities clearly are not. Most manufacturers con-
sider distributors who average less than one-half truckload per order as potential
redi candidates, although as we shall see, the economies of filling the smallest orders
is quite different from the economics for the larger orders.

Influencing customers to buy (or not buy) from redistributors requires a combi-
nation of disciplined pricing practices, healthy working relationships between the
manufacturer and redistributor, and sales force buy-in to the redistribution strategy.

The question of which products to offer through redistribution likewise bears care-
ful consideration. In general, a manufacturer’s product choice will be driven by the
distributors it serves through redistribution. The system works best for all parties
when a distributor is able to source a given manufacturer’s entire line via redistribu-
tion, as opposed to splitting orders between a redistributor and direct service.

This becomes problematic for some manufacturers when it comes to private-
label, custom-packed and special-priced products. We often hear statements like
“our margins are too thin on those products to put them through redistribution.”

While this is an understandable concern, we usually counter with “your costs don’t
care what label’s on the box, or what price is on the invoice.” This is why a thorough
understanding of “redi economics” is crucial to developing a successful redistribu-
tion strategy.

‘redi Economics’ 101

redi economics for the manufacturer

starts with a thorough analysis of cost

avoidance for redi vs. direct service, and

proceeds through marketing value and rev-

enue impact.

When existing business is switched

from direct to redi service, a manufacturer
could reduce both hard logistics costs and
softer order management costs. The hard

savings are in customer freight, and may

also include deployment and warehousing
costs if the redistributor is able to pick up

at a manufacturing plant. The challenge for

manufacturers is to quantify these costs for

the specific set of customers who are redi
candidates. Looking at averages or compa-

ny rules of thumb is inadequate because

small-order customers drive higher costs

throughout the supply chain. These hidden
cost drivers include a higher frequency of
hand-picking, excessive stop charges and

reduced trailer utilization.

The order management cost offsets are

more difficult to quantify, but doing the

work is often an eye-opening experience.

Order management costs include all of the

activity from receiving and entering orders

through booking loads to extending credit,

billing and collecting. When the “percent of

orders” is compared to the “percent of vol-

ume,” manufacturers begin to see that they

are often laboring like an elephant to give

birth to a mouse.

Some argue that even if all small-order customers are outsourced to redistributors,

there is no order management cost reduc-
tion without a headcount reduction. This

argument reflects the fact that current

accounting systems and practices are inca-

cable of reflecting the cost of order man-

agement, and therefore the savings when

order management activity is reduced.

In fact, this issue is responsible for the

occasional bum rap given to redistribution

programs by some manufacturers. The

redi allowance is clear and quantifiable,

while the savings are often fuzzy and

buried in overhead allocations.

Even without clearly documented cost

savings, however, wise manufacturers will

redeploy their order management re-

sources when they move a significant

amount of activity to redistributors. While

the cost reduction is not explicit on the

profit and loss statement, there is no doubt

that money is saved when order manage-

ment activity is reduced.

Another consideration is the marketing

value of having your products available

through redistributors. There is no ques-
tion that distributors value having a manu-
facturer’s product within arm’s reach and

available on a weekly basis with no mini-

mums and with short lead times. It is also

likely that fill rates and service levels will

be higher through a good redistributor than

with direct service. As always, the chal-

Managers, Distributors Benefit

Successful redistributors have grown

because they are uniquely positioned to

provide great value to both manufacturers

and distributors.

To the food manufacturer, a sound

redistribution strategy will yield:

• Outsourced management of small,

high cost-to-serve customer orders;

• Access to additional customers of

whom they might not now be aware;

• Reduced credit risk;

• Simplified logistics;

• Additional sales support; and

• Accelerated sampling response.

Food distributors likewise benefit from:

• Faster turns;

• Shorter lead times;

• Weekly deliveries;

• No minimums per manufacturer; and

• The efficiency of one order, one deliv-

ery, and one invoice for many different

manufacturers.

The problems solved by redistribution

are not unique to the foodservice street

channel. Food manufacturers and redis-

tributors are beginning to develop creative

approaches to systems distributors, bak-

er/deli specialists, vending and conven-

ience store distributors. As a result, a new
crop of sales, marketing, finance and sup-

ply chain people are working to figure out

how redistribution fits into their strategies.

For manufacturers, key considerations

revolve around which customers to steer

ward toward “redi” (redistribution), which

or managers in other food industry

channels are beginning to take notice.

While Dot Foods, Mt. Sterling, IL, is the

clear leader in food redistribution, with

national service across all temperature
classes (see sidebar, page 20), other com-

panies offer redistribution services by

focusing on limited product lines and/or

geography. These include the Rochester

NY-based Empire Beef Co. Inc.; Food-

service Center Inc., St. Louis; Honor Foods

Inc., Philadelphia; and Don Greene Poultry

Inc., Opa Locka, FL.

There are also many foodservice distri-

butors who dabble in shipments to other dis-

tributors, without offering sales reporting

and other services provided by the major

distributors.

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challenged for the manufacturer is converting happier distributors into more business in order to benefit from this marketing value.

**Manufacturers Expand Reach**

Perhaps of greater interest to manufacturers is the opportunity to penetrate new distributors that would not be available through direct service. Redistributors serve a wide range of accounts that are hard to reach via traditional supply chains. These include not only small distributors who lack the volume or space to meet order minimums, but various jobbers, segment specialists and non-mainstream distributors who are often unknown even to the local brokers. Access to this new universe is certainly worth a few margin points.

The final piece of the redistribution puzzle for manufacturers is an understanding of the revenue impact of moving volume through redis. Manufacturers who enforce strict bracket pricing will need to account for revenue slippage when a redistributor buys at FOB (freight on board) plant prices to serve existing business that was billed at the highest delivered price bracket. Special prices, bids, and trade deals all take on an added level of complexity when they are managed through redistribution. And the redistributor’s pricing practices relative to the manufacturer’s price list must be clearly understood in order to develop an effective program.

**Distributors Improve Service**

From a distributor’s perspective, redistribution also provides an effective solution to several persistent problems. Bruce Merrifield, a consultant based in Chapel Hill, NC, works extensively with wholesale distributors in many channels and believes redistribution will continue to grow rapidly throughout the food supply chain.

“The distributor’s bread and butter is demand replenishment,” says Merrifield. “Starting with his operator customer’s demands, he must constantly find ways to provide one-stop shopping, a high fill rate, and access to unique, low-volume items. By providing weekly service on a wide range of product lines, redistributors can provide measurable improvement in many key areas.”

Merrifield cites reduction in inventory

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**Sound Advice: ‘Build Your Business—Not More Buildings’**

Dot Foods is in the nation’s largest food redistributor, with about $2 billion in expected sales for 2004. Dot’s corporate slogan, “Build your business—not more buildings,” conceptualizes the enormous leveraging power a redistributor can offer to both food manufacturers and food distributors.

“Redistribution helps both large and small distributors,” says John Tracy, president of Dot Foods, Mt. Sterling, IL. “Regardless of your size, redistribution allows you to get to as many turns as possible at very high service levels allowing you to stock more items to sell more to more customers.” And you don’t need actual physical space to do all of this. In effect, a distributor who has customarily had room to stock only up to 5,000 items can now electronically display in his virtual storefront up to an additional 26,000 of the stocked products Dot offers, thereby increasing service levels.

In addition to having access to a wider variety of products through a redistributor, distributors can better manage their inventories as well as their cash flow because they achieve better inventory turns, thus doing more volume with fewer assets, Tracy says.

Customer service is also enhanced because distributors get more frequent deliveries while having quicker access to inventories. Because they can buy within shorter lead times, distributors can be extremely responsive to customers’ spikes or surges in demand.

Food manufacturers enjoy several benefits as well, such as access to a wider variety of customers they normally would not be able to reach due to minimums or service issues. “They have better cash flows because their products are not sitting in warehouses around the country waiting to be sold. Redistributors can handle the access issues for them throughout the country,” Tracy says. Since manufacturers generally do a better job with larger customers—typically truckload orders—they can let a redistributor handle their less-than-truckload shipments.

Many food manufacturers don’t have the time or resources for infrastructure and technology investments required to get their products, in less-than-truckload quantities, out on a regular basis to nationwide credit-worthy customers, notes Tracy. “So manufacturers are embracing redistributors because they can do a lot more with fewer assets. They can also turn fixed costs into variables, which means they can eliminate both warehousing and transporting their products throughout the country,” he says.

Redistributors also provide manufacturers with critical sales information. “If redistribution is done right, a manufacturer can know as much about where its products are being sold as they would on a direct-sale basis,” Tracy says. Dot reports electronically to food manufacturers, reporting who bought which of their products and for how much. This allows manufacturers to give credit to their local sales people and to their local brokers. “In effect, it’s a managed, structured supply chain solution—as opposed to years back when it was more a case of how do I make a quick sale,” says Tracy.

The demand for redistributors will continue to increase, says Tracy. “In the past, things like high interest rates, cash flow concerns or space issues drove the demand at the distributor level and that percolated back to the manufacturer,” Tracy says. “Now, though, it’s driven more by the manufacturers’ appetite for supply chain knowledge and the constant search for better solutions.”—April Terreri
cost as an obvious benefit. He adds that distributors usually also show improvement in fill rate, average payload per stop and customer satisfaction when they use redistribution strategically.

In a recent study of redistribution in the industrial bearings industry, Merrifield found that “the average cost of order entry has dropped from more than $5 per line to less than 30 cents (again, a difficult-to-measure hidden benefit).

One distributor customer reported “inventory investment reductions of 25 percent with significant increases in fill rates, because stock inventory can be replenished and re-tuned weekly.”

Distributors have further found that dramatic improvements in the lead times for special orders have saved old business and won new orders. Certainly food distributors who use redistribution are realizing these benefits as well.

Pitfalls To Avoid

Successful programs are based on a solid understanding of the principles outlined above, development of a sound strategy and persistent implementation. When addressed in a halfway manner, redistribution programs are subject to risks and challenges that can undermine their value.

For manufacturers, failure to truly understand costs and cost offsets can make redistribution look like a bad decision (or even worse, can drive a truly bad decision).

Occasionally, manufacturers get heartburn when the wrong distributors migrate to redi service. It can happen that a large, low cost-to-serve distributor elects to add a manufacturer’s line to his redi order, creating a delicate situation if the manufacturer has to incur added cost. These situations are easier to prevent than to reverse, so a shared understanding of the target market is essential.

Other manufacturer concerns include the putting all the eggs in one basket syndrome, where they fear giving up control of their business to a third party. This fear is worsened if salespeople and brokers are allowed to fall into an out of sight, out of mind attitude toward the distributors who buy through redis. It is incumbent on manufacturers to maintain close business-building relationships with distributors, even when the order fulfillment role is filled by a redistributor.

Finally, some manufacturers make the mistake of accounting for redi allowances as a trade expense. This practice fails to recognize the cost savings realized in the supply chain. Charging a proportional amount of the allowance to the supply chain group not only provides a more accurate reflection of the business, but also ensures that supply chain people are involved in program development as well as ongoing redi optimization.

Smart manufacturers and distributors are putting together a redistribution strategy which addresses all of the above issues, and are thinking well beyond the foodservice street channel as they seek to improve results. A sound program based on well-understood cost savings and marketing value is the start.

Diligent management of the redi channel is also necessary to maximize return on investment. Food manufacturers and distributors who excel at both will continue to reap all of the potential benefits of redistribution.

Since 1996, DeWalt, president of Franklin Foodservice Solutions, Franklin, MI, has been working as an independent solution provider for foodservice manufacturers. For more information or to subscribe to the free Foodservice Marketing Insights newsletter, go to www.franklinfoodservice.com.