

# Smoke Jumpers

Fighting the good fight





# Topics for Discussion

- Trade spending Findings
  - Deep Dive: understanding of Distributor economics.....hungry for \$
  - Manufacturer internal positioning
  - Expectations
- 

# What We Heard

Clear messages





# What is keeping you(us)awake at night

- Total Spend
  - Effectiveness of trade/support
  - How to deal “ more strategically” with data
  - Challenges to differentiate
- 



# Confirming

- ▶ 2<sup>nd</sup> highest P&L line for most
  - ▶ More than combined sales & marketing
  - ▶ Operators don't know or don't care
  - ▶ Every company has unique complexities
- 



# Realities

- ▶ % of business with “top” trading partners
  - ▶ Investment Vs. Insurance
  - ▶ CatMan Front end, back end
  - ▶ Irrational competitive behavior
- 



# Major Issues

- Marketplace leverage
  - Cost of “push” vs. Pull
  - Breaking through the clutter
  - Growth
  - Paying incentives on business you had
- 



# Manufacturers Making Progress

- Deeper insight and management
  - Adjusting strategies & tactics
  - Increasing focus on using data
  - Courage
- 

# Trading Partner Deep Dive

Distributors





# The Importance of Manufacturer Trade Dollars to Foodservice Distributors

And why they will always “demand” them!

# Many Points of View, but...

- ▶ Holistic vs. Heavy-handed approaches notwithstanding, broadline distributors depend heavily on manufacturer trade \$\$.
- ▶ Value-added and intrinsically high-value commodity SKUs generate over 100% of a broadliner's operating profit (see examples).
- ▶ Barring massive industry disruption and business model transformation, these truths will remain "self-evident"

# What is it, really?

- Simply put, distributor trade equates to a reduction of distributor COGS.
- In other words, trade = discounted price.
- Method of delivery enables effectively charging different prices based on volume and/or other (law-abiding) factors.
- Distributors don't see it the way you do.



# Two Kinds of Distributor Business

## Contract Business ~60%

- ▶ End customer has an "agreement" with FSD
- ▶ FSD margin over "cost" is governed by agreement
- ▶ Distributor defines "cost" with maximum ambiguity
- ▶ Price calculated as a derivative of "cost"

## Non-Contract "Street" ~40%

- ▶ End customer does business on a "handshake"
- ▶ Credit App and Invoice T&C's govern transactions
- ▶ Prices set by DSR, typically working from "Sales Cost"\*
- ▶ Customer "negotiates" some prices, asks others, and "accepts" most.

# The “Golden Case”

## The Positive Value of **ONE MORE** Street Case

<b>40 cases @ \$7.00 TGP</b>	<b>\$280.00</b>
Delivery Expense	\$64.00
Sales Expense	\$62.00
Warehouse Expense	\$30.00
General & Admin Exp.	\$27.00
Occupancy Expense	\$13.00
<b>Total Expenses</b>	<b>\$196.00</b>
Operating Profit	\$84.00

<b>ONE MORE CASE</b>	\$7.00
Incremental Expenses	\$1.54
<b>41 case Operating Profit</b>	<b>\$89.46</b>
Incremental Net Profit	<b>\$5.46</b>

**One more case per street order raises a distributor’s bottom line by 6.5%**

## The Negative Value of **ONE LESS** Street Case

<b>39 cases @ \$7.00 TGP</b>	<b>\$273.00</b>
Delivery Expense	\$63.96
Sales Expense	\$61.23
Warehouse Expense	\$29.64
General & Admin	\$26.91
Occupancy Expense	\$12.87
<b>Total Expenses</b>	<b>\$194.61</b>
Operating Profit	\$78.39

<b>ONE LESS CASE</b>	<b>(\$7.00)</b>
Expenses Saved	\$1.39
<b>39 Case Operating Profit</b>	<b>\$78.39</b>
Loss of Operating Profit	<b>(\$5.61)</b>

**One less case per street order reduces a distributor’s bottom line by 6.7%.**

# A Study in Contrast

## “Street” Case Values

➤ Avg. Sell Price	\$34.00
➤ “Selling” GP (-13%)	\$ 4.42
➤ “Other” GP (-8%)	\$ 2.72
➤ “Total” GP (-21%)	\$ 7.14
➤ Ops ABC’s	\$ 2.67
➤ SG&A Expense	\$ 2.23
➤ Total ABC’s	\$ 4.90
➤ Operating Profit	\$ 2.24*

\* Add approximately \$1.70/case for Top Tier FSD’s due to lower COG’s (higher trade) and lower Ops Expense

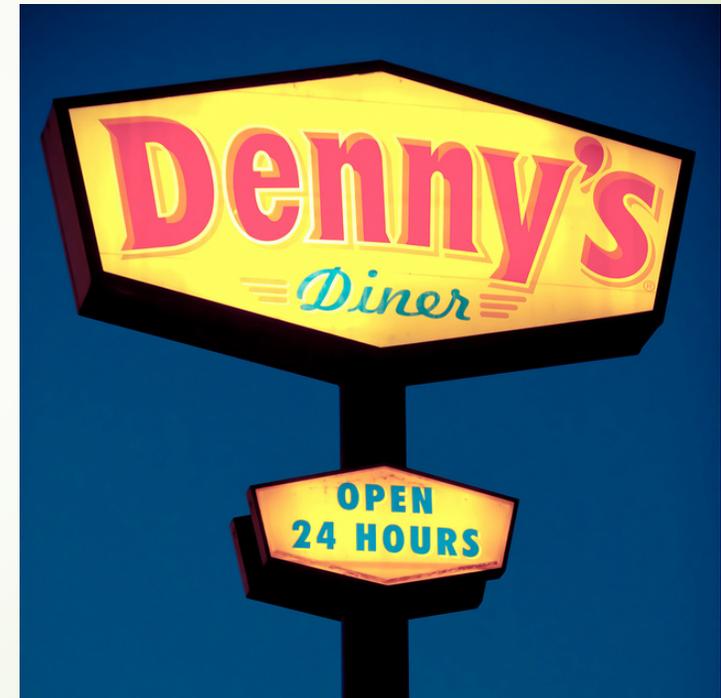


# A Study in Contrast

## “Contract” Case Values

▶ Avg. Sell Price	\$32.50
▶ “Selling” GP (~8%)	\$ 2.60
▶ “Other” GP (~4.5%)	\$ 1.46
▶ “Total” GP (~12.5%)	\$ 4.06
▶ Ops ABC’s	\$ 2.45
▶ SG&A Expense	\$ .66
▶ Total ABC’s	\$ 3.11
▶ Operating Profit	\$ .95*

▶ \*Median value for “broadline” contract type business.

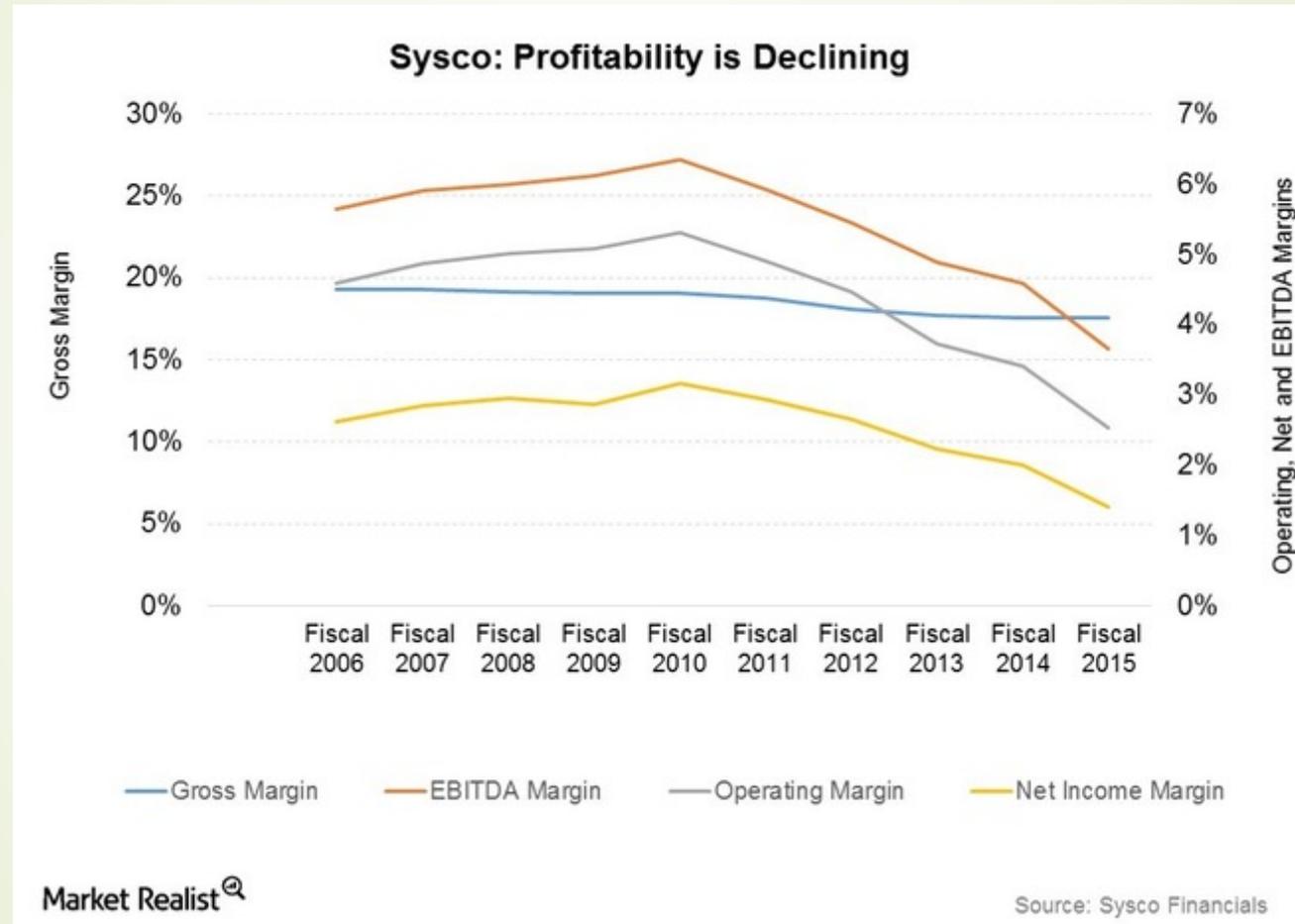


# Value Added Paper Towels

➤ Size	= 2.51 Cubic Feet	
➤ Weight	= 29.37 lbs.	
➤ Sell Price	= \$61.20	
➤ TGP	= \$10.32 (16.9%)	Trade = ~\$5.00
➤ Purchasing	= \$.25	ABC's = \$5.20
➤ Receiving	= \$.33	
➤ Selling	= \$1.55	
➤ Selection	= \$.45	
➤ Loading	= \$.12	
➤ Delivery	= \$2.50	
➤ Contribution	= \$5.12 (8.4%)	No Trade, No Profit



# Sysco Results Reflect Industry Mix Shift



# Steady Growth of Contract Volume

- ▶ Top Tier Street/Contract Mix = 65/35
- ▶ 25 years ago the ratio was = 40/60
- ▶ Sysco, US Foods, PFG, Gordon, Reinhart do more chain, GPO, and systems business than “street,” (regardless of what they say).
- ▶ Margins have remained roughly the same, but composition of GP has shifted from ~22% coming from manufacturer trade to ~44%.
- ▶ So, what has actually changed?

# Dichotomy of Operator Types



# Disruptors Save the Day...(sort of)



**Webstaurant**Store



# What to do About It?



# But First, Some Additional Perspective

Distributor

craigslist

vancouver, BC

english | français

We are a small & casual restaurant in downtown Vancouver and we are looking for solo musicians to play in our restaurant to promote their work and sell their CD. This is not a daily job, but only for special events which will eventually turn into a nightly event if we get positive response. More Jazz, Rock, & smooth type music, around the world and mixed cultural music. Are you interested to promote your work? Please reply back ASAP.

Reply:

Happy New Year! I am a musician with a big house looking for a restaurateur to promote their restaurant and come to my house to make dinner for my friends and I. This is not a daily job, but only for special events which will eventually turn into a nightly event if we get positive response. More fine dining & exotic meals and mixed Ethnic Fusion cuisine. Are you interested to promote your restaurant? Please reply back ASAP.

Brave  
Manufacturer



# Start With the Facts

- ▶ Conduct a “Supplier Performance” analysis
  - ▶ Compile all available data w/r/t a specific FSD
    - ▶ Contract volume (SKU-level)
    - ▶ Non-contract volume (SKU-level)
  - ▶ Perform SKU-level Price and TGP analysis
    - ▶ Estimate average Total GP (difference between sell price and COGs with trade, deviations, etc.)
    - ▶ Separate analyses for Street and Contract volume even even if SKU crosses over between segments
    - ▶ SKU-level KPIs: TGP/Cs., Cs/wk, Weight & Cube



## Layer in the ABC's

- ▶ Requires metrics and knowledge of distributor operations and expenses, but Public Company Averages (SYY, USF, PFG) work pretty well
- ▶ Solid numbers are critical, otherwise "risky"
- ▶ Play it safe with conservative assumptions
- ▶ Correlate SKU-level ABCs with TGP estimates and develop a "Supplier Performance" pro-forma P&L.

# Sample "Supplier Performance" (40 SKUs with avg. 30 cs./wk. Velocity)\*

- Avg. Size = .95 Cubic Feet
- Weight = 24.00 lbs.
- Sell Price = \$ 32.00
- **TGP** = \$ 5.87 (18.3%)
  - Purchasing = \$.16
  - Receiving = \$.15
  - Selling = \$.58
  - Select/Load = \$.52
  - Occupancy = \$.25
  - Delivery = \$1.50
- Contribution = \$2.71 (8.5%)

Trade = ~\$2.40 (\$.10/Lb.)

ABC's = \$3.16

"Earned" Income?

\*Truckload Customer  
~\$2MM  
"Last Mile"



# What You May Find

- ▶ Depending on your category, its margins, and ABC's, you'll find one of the following:
  - ▶ Your category/brand is a big money-maker
    - ▶ High performance (ROS >15%) for Street biz
    - ▶ Reasonable profit (ROS >5%) for Contract biz
  - ▶ Your category/brand is a mixed bag
    - ▶ Modest profitability (Street ~5%, Contract <2%)
  - ▶ Your category/brand is a profit "dog"
    - ▶ Low/No profit (Street <2%, Contract <1%)

# Expectations

3-5 years





# Expectations: Trading Partners

- Marketplace leverage shifts/struggles
- Contract business growth
- Mid size chain purchasing sophistication
- GPO pushes: pricing, members, compliance
- Distribution competitiveness, profit pressure
- BTW: the consumer will be more particular
- RFP processes will continue



# Expectations: FS Industry/Segments

- Real growth 2-3% CAGR
  - Increasing penetration by GPOs
  - Select segments to grow faster
  - Commercial chains look more at GPOs
- 



# Manufacturer Challenges

- ▶ Volume & profit growth
  - ▶ Reduce or zero sum on trade
  - ▶ Increasing strategic use of data
  - ▶ Operator reach/leverage
  - ▶ Maintain control of pricing & deals
  - ▶ Courage to change
- 

# Thank You

Gary Karp: [garykarp11@outlook.com](mailto:garykarp11@outlook.com)

Barry Friends: [barryfriends@gmail.com](mailto:barryfriends@gmail.com)

P.S. Look for the announcement of a new company after January 1, 2017