



**Napa Valley  
November 2014**



## Smoke Jumpers XI

Arrivals	February 18 [Wednesday]
Meeting	February 19 and 20 [Thursday and Friday]
Location	Austin, TX

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- Updates on Sysco – US Foods if there is any new news
  - Can we recruit someone from a GPO?
  - Should we recruit someone from Restaurant Depot or take a tour of one?
  - Would something on Trade Strategy ‘recipes’ be valuable?
  - Other subjects to focus on?



## Why are we here?

- Foodservice trade and pricing discounts is a challenging and dynamic environment
- Across manufacturers, there are significant yet common challenges to address
- In some areas, solutions defined collectively can have greater value than operating independently

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- Education
  - Awareness
  - Problem-solving



## Prior Meetings

I	2011	June	Chicago
II	2011	September	Chicago
III	2012	January	San Francisco
IV	2012	October	Las Vegas
V	2012	June	New York
VI	2013	January	Atlanta
VII	2013	May	Chicago
VIII	2013	December	Boston
IX	2014	May	Chicago
X	2014	November	Napa Valley



## Participating Companies

AdvancePierre

Hormel Foods

Ocean Spray

Bagcraft

Idahoan Foods

Pinnacle Foods

Campbell's Soup

International Paper

Procter & Gamble

ConAgra Foods

J.M. Smucker

Reckitt Benckiser

Continental Mills

J.R. Simplot

Rich Products

Custom Culinary

John Morrell

Sabert Corporation

Flowers Foods

Ken's Foods

Sargento

Foster Farms

Kraft Foods

Schwan's

General Mills

Lamb Weston

Solo Cup

H.J. Heinz

M&M Mars

Tyson Foods

Hillshire Brands

Mission Foods

Unilever

Hoffmaster

Nestle

Ventura Foods

## Topics

Broker Consolidation  
Buying Group perspective  
Efficient Claims Processing  
GPO Compliance  
GPO Location Level data  
Growth of Cash & Carry  
Industry News  
Operator-focused Organizations  
Recapture  
Sourcing RFP's  
Sysco - US Foods merger  
Trade Metrics  
Trade Organization  
Value for the Sales Function

## Guests

AFS Technologies  
CBS  
CHD Expert  
I-Trade Network  
Local Operators  
Technomic  
The Hale Group  
Tibersoft  
Unipro





## Confidentiality and Antitrust

- We are not here to ask anyone to disclose sensitive competitive information
- We are not here to encourage anyone to recommend changes to their company policies or practices – those decisions are up to each of you independently
- If you feel something is proprietary or confidential, do not offer that up to the group
- Do not breach any confidentiality agreements you may have with your customers during these discussions
- All information shared during this session should be considered “public domain”
- Be especially careful to avoid discussions about anything to do with specific prices for specific customers
- Avoid discussions about whether to do business with certain partners and under what terms of sale



## Agenda for today

- 8:45 Introductions and General Session
- 9:00 Rob Veidenheimer – The Hale Group
- 10:30 Break
- 11:00 Case Study – Organization Model
- 12:00 Lunch – Pool Patio West
- 1:00 Case Study Group Breakouts
- 2:00 Case Study Recaps
- 3:30 Adjourn
- 4:30 Depart from the lobby for CIA Greystone



## Friday

- 9:00 State of the Industry
- 10:45 Wrap up





## Follow-ups from 2014

- UniPro 450
- MBM and direct-ship contract pricing
- Updates on GS-1 and adoption of the elusive GTIN / GLIN
- GPO Compliance – any evidence of improvements?
- Broker Consolidation and assessment of national vs. local
- Do 'growth' programs make sense any more?
- Is Local Marketing 'dead'?



# GROUP BREAK OUTS



## Organizational Challenges

While most organizations have defined roles, responsibilities, processes and system, there is often a gap relative to ultimate accountability for foodservice discounts.

	Sales	Finance	Marketing
Quantitative	Volume	Overall Spending vs. Plan  Annual plan delivery	Depth of discount  Brand-specific margins
Constituents	Customer	Auditor [controls]	Strategy - Competitor & Segment



## Organizational Challenges

Who ...

1. Decides when the discount breaches the magic threshold?
2. Is accountable for delivering total overall spending targets?
3. Creates the strategy for trade?
4. Is ultimately responsible for process design and controls?
5. Manages the systems?
6. Other ...



## Today's process

- Case study format
- Small breakout groups with assignments from the case
- Break out rooms to ideate, brainstorm and problem-solve
- Re-group as a general session

## Your role

- Rely upon your experience and knowledge in the industry
- Try to free yourself of the constraints you may have “back at the ranch” [e.g., disposable vs. F&B, broker v. direct, etc.]
- While we are working as a group, feel free to throw in challenges you have right now for selfish reasons



# State of the Industry

## Significance

Year over year comparison of the 52 week period ending 9/30/14

Considered “finished” transactions only [e.g., ‘Paid’]

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\$41 billion customer direct sales

415,000 promotions

\$4.6 billion operator-related billbacks

Average billback \$729

### FOOD & BEVERAGE

AdvancePierre  
Cavendish Farms  
ConAgra Foods  
Continental Mills  
Custom Culinary  
Diamond Crystal  
Flowers Foods  
Foster Farms  
General Mills  
Heinz  
Hormel  
John Morrell  
Kraft  
Lamb Weston  
Mars  
Mission Foods  
Nestle  
Norpac  
Rich Products  
Simplot  
Stratas Foods

### DISPOSABLE / JANSAN

Bagcraft  
D&W Fine Pack  
Genpak  
Hilex Poly  
Hoffmaster  
Huhtamaki  
International Paper  
Pactiv  
Procter & Gamble  
Sabert  
Solo Cup







## Definitions: Direct Trade

- Based upon 'programs' in the application offering funding to a distributor based upon their purchases or via lump sum
- Includes all local, corporate and buying group offers
- Incorporates off invoice, billback and auto pay mechanics



## Definitions: Operator Discounts

- Based upon 'programs' in the application offering funding related to specific operators or groups of operators
- Includes settlements through the distributor and direct to operator
- GPOs aggregated to be inclusive of major members – Sodexo and Entegra, foodbuy and Compass, Avendra and Marriott, etc.

### Specific Aggregations:

Avendra

foodbuy / Compass

Sodexo / Entegra

Premier [all segments]

ARAMARK [all businesses]



## Definitions: Discounted Share

- Discounts based upon settlements associated with one or more operators

Divided by

- Total business based upon shipments to the distributor unfiltered [e.g., with few exceptions, all purchases were counted]

## Definitions: 'Street' Business

- Total business less operator discounted

## Definitions: Discrepancies

- Dollars claimed against operator-related programs where the claimed value was greater than the expected value



## High Level Story

**+ 7%** Total sales dollar change

**+ 5%** Total sales volume change [ physical cases]

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**+ 14%** Total spending change – all in

**+ 21%** Change in operator discounted volume

**+ 1%** Change in street volume



## Street Base Erosion

	<u>Street Volume</u>	<u>Operator Volume</u>
Change vs. Prior Year	<b>+ 1%</b>	<b>+ 21%</b>
Share of total volume	<b>53%</b>	<b>47%</b>

5% overall volume growth vs. prior period



## Non-Commercial Deviated Billing Driving Growth

**+ 22%** Increase in operator spending  
- 84% of operator dollars are settled through the distributor

**+ 21%** Increase in operator volume growth

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**47%** Share of growth from Big 5

**68%** Big 5 volume change from deviations through distribution



## Locations and/or Velocity Driving Increases

The data supports the assumption that incremental locations are driving the growth – increases in the depth of the discounts does not bridge the variance.

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**+ 4%**      Increase in average stock case price

**+ 5%**      Increase in depth of discount for Big 5



# Processing Benchmarks





# Process Benchmarks: Program Approval

**9.3** Days to approve

**(7%)** Change from prior year

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**4** Best In Class

**23** Needs Improvement



## Process Benchmarks: Retroactive Programs

**26%** % Created with Retro Start Date

**11%** Change from prior year

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**9%** Best In Class

**54%** Needs Improvement



## Process Benchmarks: Retroactive Duration

**35**

Average days retroactive

**(19%)**

Change from prior year

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**15**

Best In Class

**147**

Needs Improvement



## Claim Discrepancy Summary

**+ 8%** Total discrepancy dollar growth

**16%** Percent of dollars representing a discrepancy

*\* Up from 14% in the prior period*

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**63%** Rate variance

**22%** Product not eligible on program



## Process Benchmarks: Billback Approval

**9.5** Average days to approve

**(7%)** Change from prior year

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**2.6** Best In Class

**23** Needs Improvement



## Process Benchmarks: Deduction Age @ Closing

**24** Average age when closed

**(5%)** Change from prior year

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**8** Best In Class

**41** Needs Improvement



# Implications



## So What?

1. Spending is increasing for operator-based discounts at a greater rate of change than overall dollar and volume growth.
2. The share of volume from “street” business continues to decline and now approaches 50% across the data considered.
3. The majority of the growth in operator discounted volume is represented by deviated billing through the distributor to five (5) non-commercial Group Purchasing Organizations [where integrity challenges exist].
4. The rate of discrepancy is 10-15% with distributors supporting the majority of the non-commercial GPO business.
5. Customers are deducting the majority of their trade, eliminating the ability to reconcile discrepancies.





## Implication Focus Areas

1. Increase value for the dollars invested and/or implement more control relative to spending going forward.
2. Gain control over GPO spending growth.
3. Address the issues resulting from the growth in deduction as the settlement mechanism for deviated billing and earned income.
4. Consider greater controls over the mechanics that drive administration and/or offer the lowest value
5. Consider negotiating claim efficiency as an element of earned income



## **1. Increase value and/or shore up controls.**

**GOAL: Invest in volume truly incremental to my business.**

**PLAN B: Control how much I have to spend to survive.**

- Low product differentiation has shifted leverage in the channel.
- Direct trade dollars are challenged to drive meaningful positive value.
- With the popularity of deviated billing for GPOs, street conversion is a reality.
- Spending better is difficult if the risk of 'or else' is real – few direct dollars correlate to true volume gains.
- Spending rationally is possible with process and accountability.



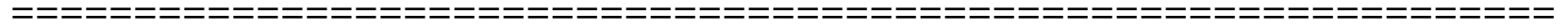
## **2. Gain control over GPO spending growth.**

- Define expectations for membership integrity and location validation.
- Clarify process for resolving disputes arising from extendibility.
- Establish rules for reconciling volume from members belonging to multiple groups.
- Clear up contract conflicts where members qualify for their own independent discounts.
- Adopt scorecards to qualify purchasing influence and the overall quality of the proposed relationship.
- Align the size of the discounts with the overall quality of the relationship.
- Improve audit capabilities through standard claim content.



### **3. Address the growth in shelter deductions.**

- Deduction has become the primary vehicle for settling shelter and earned income. Our audit indicates it is now more than 70% of the dollars settled.
- This essentially eliminates the primary lever for reconciling claim discrepancies and ineligible volumes [recapture].
- The cost of validating shelter deductions is high and the process complex.
- Considering US Foods, GFS and Reinhart, companies are investing \$80,000 or more each year resourcing the reconciliation with negligible ROI.



- A. Adopt policy of Off Invoice [e.g., Sysco] to replace deduction as the vehicle – provides a better rate control, reduces admin burden and lowers legal risks.
- B. Move to quarterly adjusted rates – “self-healing” – as a mechanic for reconciliation of discrepancies and recapture.
- C. Improve rebill process and/or ability to barter and negotiate.



#### **4. Consider greater controls over the mechanics that drive administration and/or offer the lowest value .**

- Deviated pricing mechanics increase the burden of administration and are the most difficult to negotiate recollection.
- Rebates based upon percentage applied against complex 'net schedules' drive the complexity of administration.
- Rebates offered against your product hierarchy can drive variance due to the item-level extension by the distributor.
- Growth should be selective [e.g., competitive replacement, new product launch, etc.] to avoid paying for GPO unit growth or shifting your volume from distributor A to distributor B.
- Lump sum or fixed fund offers are convenient but have the least correlation with volume.



## **5. Consider negotiating claim efficiency as an element of earned income.**

Rank	Opportunity	Size	Commentary
1	Gordon Food Service	Large	25% of industry pain level
2	Bunzl	Large	50% of disposables pain level
3	PFS	Medium	Variance by branch complicates streamlining
4	Vistar	Med to High	Files often hard to read and difficult to convert
5	Shamrock	Medium	Conversion of the files is painful

### Special Mention

Reinhart	Large	Rate of discrepancy is higher than most
Sysco	Grande	Inconsistent execution / duplicates
US Foods	Grande	Contract mapping too complicated for GPO's



SYSCO OF CENTRAL CALIFORNIA  
DEBIT MEMORANDUM

VFIX 253022  
M. Juener 11/14/2014

ISSUED BY: Rick Norwood

SHIP TO: Billing only

Return Authorization #: \_\_\_\_\_

Total Cases Returned: \_\_\_\_\_

Common Carrier Contact Name: \_\_\_\_\_

Common Carrier Contact Phone: \_\_\_\_\_

Bill of Lading: Prepaid  Collect

Shipping Instructions: \_\_\_\_\_

APPLY TO: VFIX SPD

MANAGER APPROVAL: \_\_\_\_\_

VENDOR NUMBER: 5360

SLIT NUMBER	# CASES	MFG.	QTY	PK SIZE	DESCRIPTION	UNIT PRICE	TOTAL
					GROWTH TARGET FOR QUARTER 4		\$0.00
							\$0.00
							\$0.00
TOTAL DEBIT:							2006. <sup>00</sup>

REASON:  PROMOTIONAL ALLOWANCE  
 PRICE CORRECTION  
 BAD OR DAMAGED PRODUCT  
 SHORTAGE  
 LATE TRUCK  
 COURIER CHARGE  
 RETURNED/DONATE OR DISCARD PRODUCT  
 OTHER

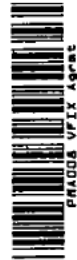
COMMENTS: GROWTH PROGRAM QUARTER #4

METHOD OF PAYMENT:  PLEASE ISSUE CREDIT  
 PLEASE ISSUE CHECK PAYABLE TO: SYSCO FOODSERVICES OF CENTRAL CA.  
 SYSCO FOODSERVICES OF CENTRAL CA. WILL TAKE ADJUSTMENT ON THE NEXT PAYMENT.  
 ACTION TERMS: IF PAYMENT/CREDIT MEMO IS NOT RECEIVED BY \_\_\_\_\_ WE WILL DEDUCT \_\_\_\_\_

REASON APPROVED BY: \_\_\_\_\_

SUPPLIER SIGNATURE: \_\_\_\_\_

Revision 5/21/00





## Hurricane Planning

Assume that the rate of change is likely to increase in 2015 and 2016 from what is has been. What can we do now to be better positioned for the future?

- Competitive positioning and pricing gaps
- Honest evaluation of the strength of your operator relationships
- Capture our 'secure' operator business vs. what's at risk
- Lock in EDA and Shelter Rates
- Contingencies for if we [a] win or [b] lose



