


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

- ▶ 2nd 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
- 



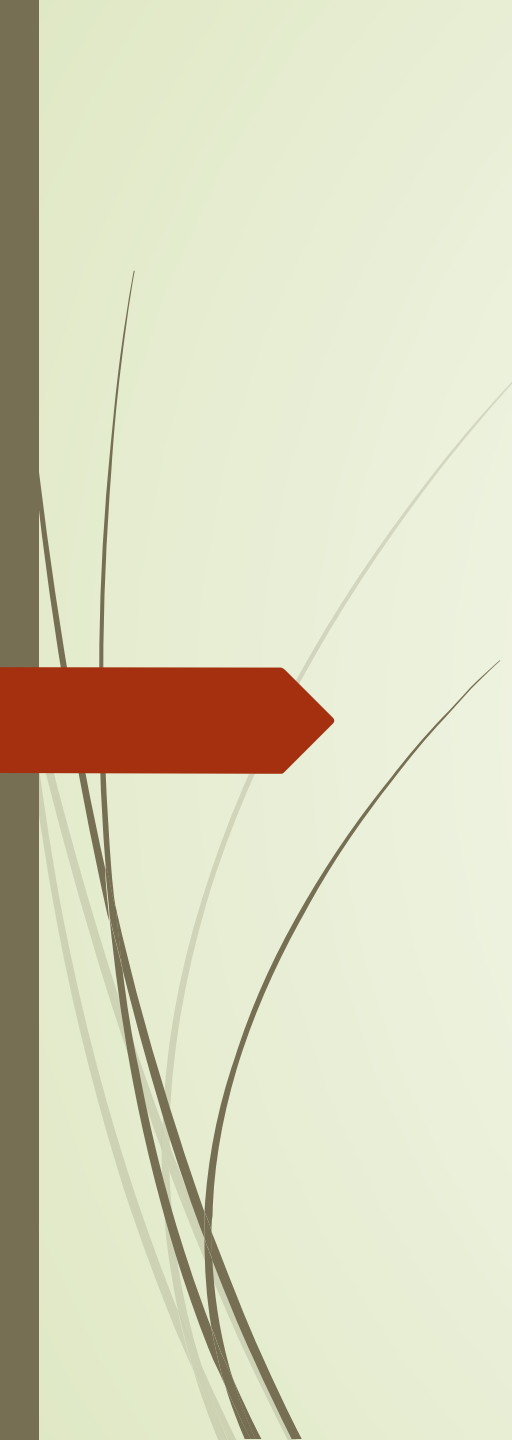
Manufacturers Making Progress

- 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

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

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

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

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

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

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

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.

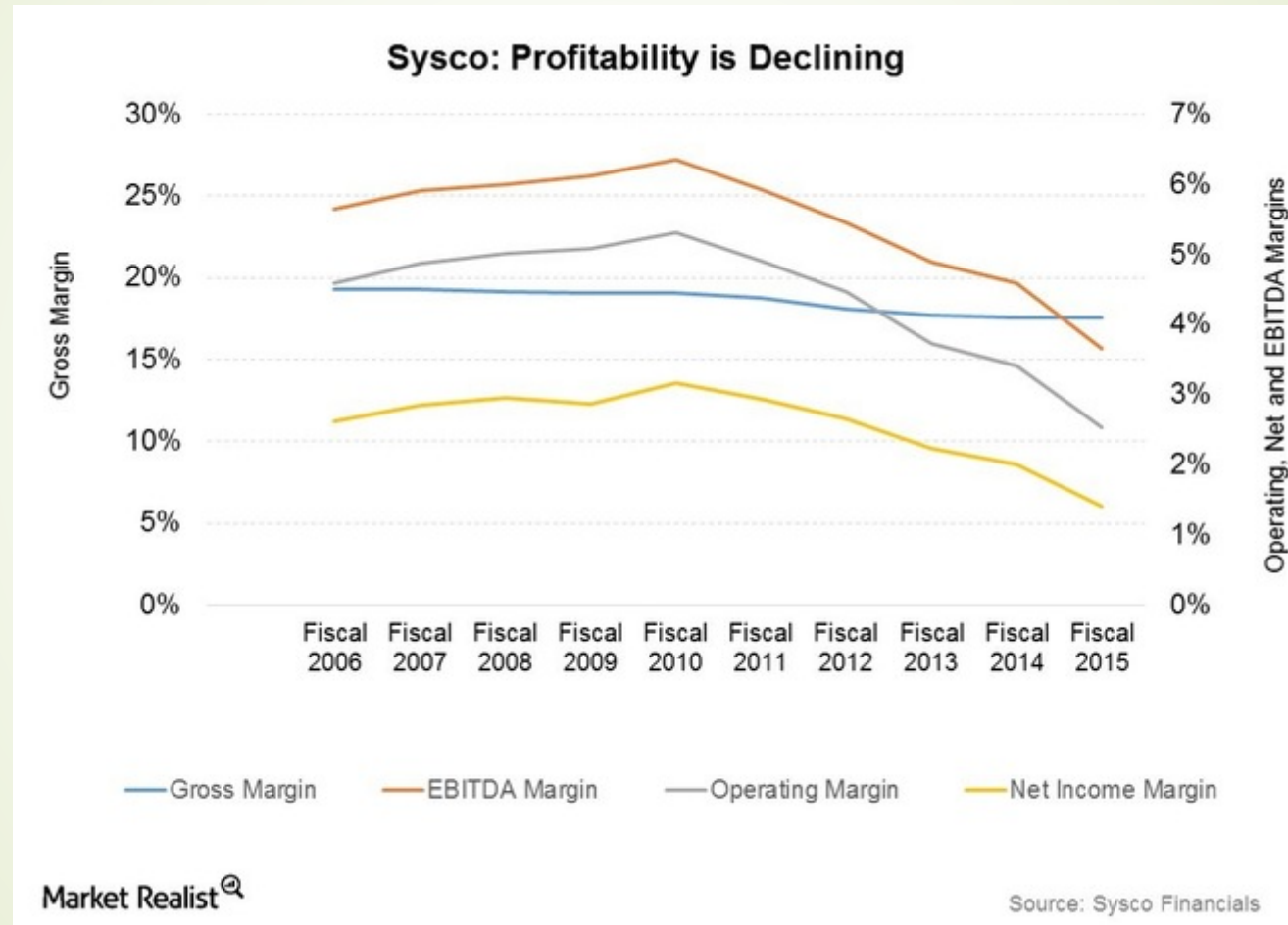


Value Added Paper Towels

➤ 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



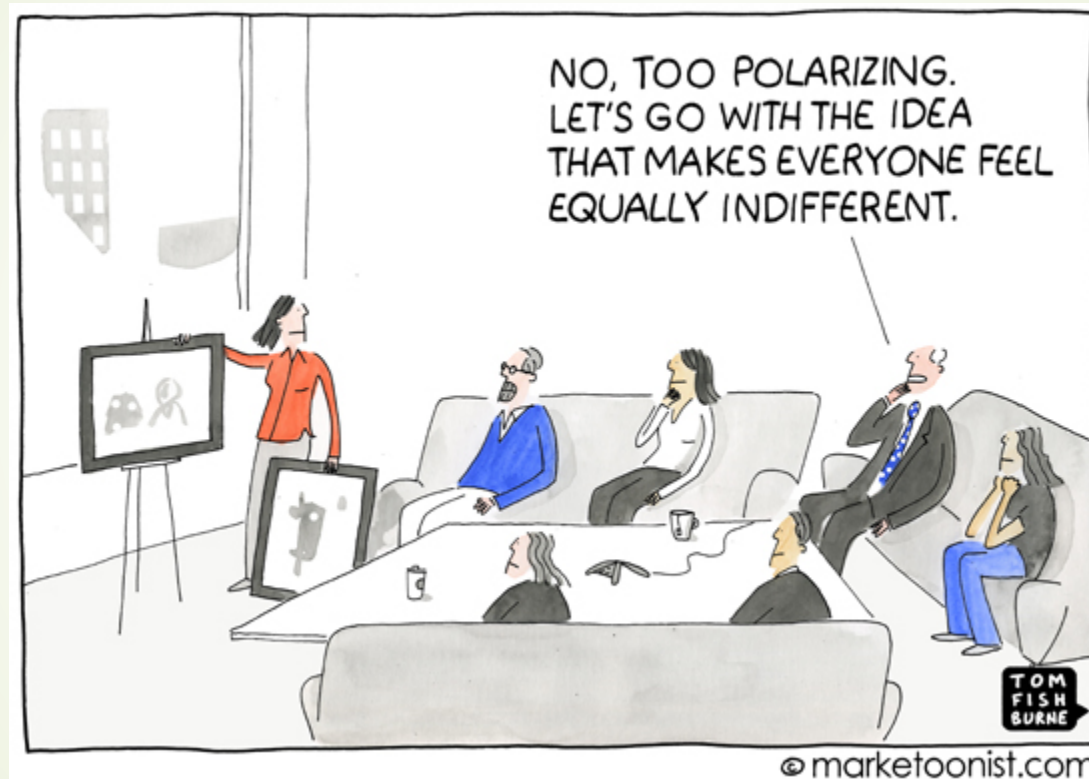
Sysco Results Reflect Industry Mix Shift



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)



WebstaurantStore



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.
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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
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Thank You

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