

# Are Your Trade Promotion Processes Rising to the Challenges of Rapid Growth in Foodservice?

*As seen in the Journal of Trade Partner Practices*



## **An Article on Trade Promotion in Foodservice By Jim Klass**

Many consumer products firms, especially those with Foodservice (FS) divisions or offerings, are increasingly recognizing the growing importance of the Foodservice Industry. It's probably hard for anyone in the Industry to ignore the pace of rapid growth of Foodservice when, according to Technomics, more than half of every consumer dollar spent on food is spent in Foodservice.

The Trade Promotion Management Association (TPMA) recognized this growth spurt over the past year and, to better understand the drivers of this trend, is currently exploring the trade promotion aspects of Foodservice with Hitachi Consulting and a select group of key Foodservice manufacturers. The project's short-term goal is to determine exactly what Foodservice defines as trade promotion, including the process flow and metrics, thereby allowing a meaningful dialog among all trading partners. Over the long term, the endeavor will provide direction to all industry segments invested in Foodservice, helping them become more Market Responsive.

As Foodservice continues to mature, especially within the more traditional setting of the Consumer Retail industry, industry experts have naturally been tempted to apply lessons learned in Retail Trade Promotion to the FS segments. However, a quick look at the current dynamics reveals several key reasons why Foodservice is more complicated than retail:

- There's less concentration of customers and competitors -- the top three distributor groups Sysco, US Foodservice and PFG, have less than 30 percent of market share
- There are many more players than Retail -- more than one million licensed FS operators in the United States -- more than 10,500 FS distributors versus 88 retail accounts for CP/Retail
- Partners are less committed to data sync
- Foodservice is less sophisticated overall:
  - No third-party source for market share
  - No syndicated data
  - Lack of a standard for electronic data feeds
  - Due to the time required to collect, pay and resolve promotion issues, analytics take a back seat

With this backdrop, companies expecting to capitalize on their trade dollars in Foodservice should understand the major challenges around data harmonization.

The current data landscape as seen by Foodservice-specific data companies shows:

- 5.9 million FS distributor SKUs mapping to less than 500,000 unique manufacturer SKUs
- More than two million distributor-identified operator locations map to 900,000 actual FS operator locations
- Due to the non-standardized proof of performance data format there is a higher than average chance of duplicate submissions

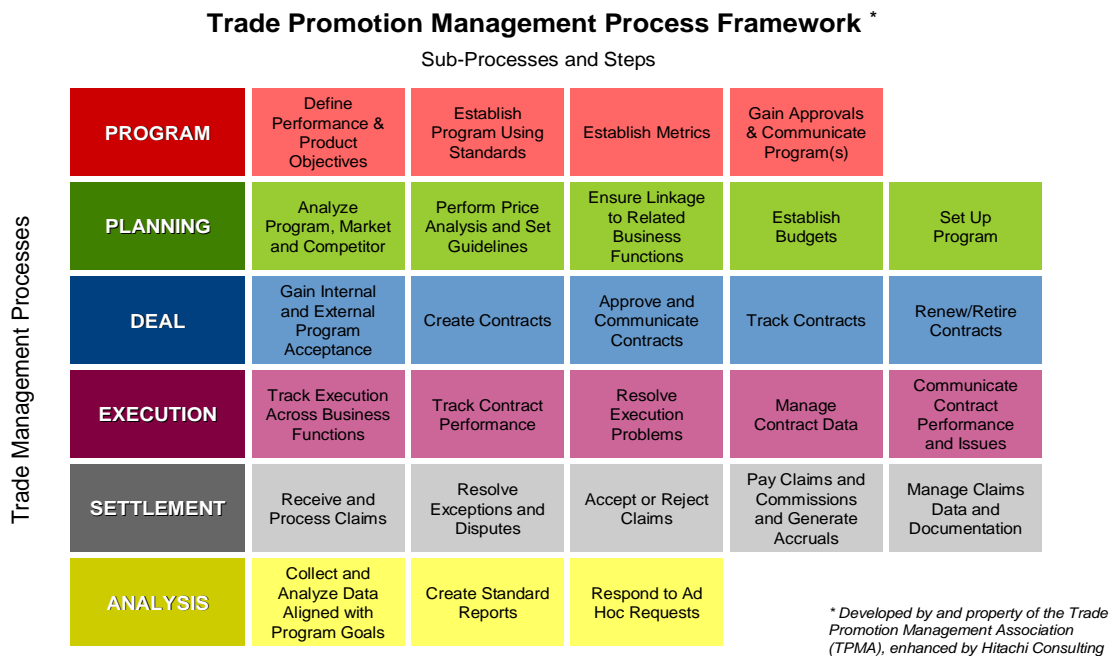
And if these challenges around your data, and that of trading partners, aren't enough to keep you up at night, there are other complications inhibiting growth and expansion. For instance, the Foodservice pricing and trade spend environment is complicated by the financial relationship with critical FS distributors.

Thoroughly understanding the distributor segment is critical to your success. To be successful you need to understand that:

- Foodservice distributors provide many value-added services and serve as the critical link to deliver product to street and LLO accounts that manufacturers could not otherwise reach
- After-tax profit is typically in the low single digits for distributors
  - National account/chain business is break-even at best
  - Street business is more profitable, but under pressure from chains
  - This level of business profitability is driving ever-greater demands for “shelter income” and growth programs
  - 40 percent of the average distributor's profits are derived directly from the manufacturer, according to the IFDA

As part of its work with the TPMA, Hitachi Consulting and the Foodservice Council have developed a process framework to outline the issues surrounding Trade Promotion. The six steps detailed in the chart represent the defined processes to help Foodservice partners find areas of agreement or improvement. Utilizing these processes as a guideline, and understanding their price waterfall, will enable a manufacturer to understand their “cost to serve” along the entire Foodservice supply chain. This is critical to creating promotion activity that creates value for all parties: from the manufacturer to the distributor to the operators.

## TPMA/Hitachi Consulting Foodservice Process



A critical aspect of solving problems in these areas begins with identifying the owners by business functions, departments, and/or hierarchical levels. We often find many competing priorities:

- Finance and IT tend to want to attack the process and base-line technology issues first (Process Improvement, Risk Management)
- Sales and Marketing tend to want to get to pricing and trade spend analytics first (Performance Improvement, Financial Gains)

Recognizing what areas of trade promotion to attack, what level of benefits can be achieved, and how you will manage to success are more critical in trade spend than in most other areas of business

transformation. Plan for organizational and performance management change in your initiative. In selecting the appropriate scope of work for a trade promotion initiative, recognize:

- What areas of the problem/opportunity to attack
- What level of benefits can be achieved
- The degree of organizational change to take on
- How to limit the initial size of the project -- focus on gaining an early win

The Hitachi Consulting view of Building the Market Responsive Company<sup>SM</sup> in revenue management mandates the improvement of internal and external business integration, resulting in better execution of strategy and business goals. To focus specifically on improving Trade Promotion, companies must take advantage of available technology to automate and analyze trade spend. Once you have a software solution in place, be it integrated or Best of Breed, you will have better analytic capabilities. You will also be able to measure the effectiveness of your trade spend dollars, allowing your firm to develop programs to maximize your trade spend budget. The goal we're all striving for is to maximize return on each dollar spent.

So why, despite this clear-minded and rational understanding of the problem and the solution, is there still frustration? Why is there still widespread fear of change?

With evolving government regulation and stockholders' concerns about return on their investment, progress is mandated; maintaining the status quo is not an option. Obviously, enterprises have been intensely focused on lean manufacturing, just-in-time, and track and trace, in addition to ever-changing product demands. With all this activity, TPM was a black hole of sorts – too tough of an issue to crack. But now, with Trade Promotion owning the second biggest line item on the balance sheet, it can't be ignored any longer. And luckily, the processes and technology are ready for action.

#### **About The Author**

Jim Klass has spent more than 30 years working in the food and beverage industry. He currently is National Director of Hitachi Consulting's Consumer Products/Food & Beverage Practice where he's a part of Building the Market Responsive Company<sup>SM</sup>. He was a Foodservice broker/owner for more than 20 years, in direct contact with manufacturers/distributors and operators dealing with supply chain, new product and trade management issues. He spent four years on the technology side of the food industry, both in supply chain and trade management, with major food manufacturers, foodservice distributors and key foodservice operators. He has been with Hitachi Consulting for three years working in the Consumer Products arena on supply chain and revenue management solutions.

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