



A RECIPE FOR INTELLIGENT COMMERCE IN FOODSERVICE DISTRIBUTION

WHITEPAPER



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Few industries have experienced more disruption in recent years than foodservice distribution. Supply chain challenges, a global pandemic, increasing cost volatility, labor shortages, inflationary pressures and shifting customer landscapes away from the more profitable independent operators to national chains, multi-unit operators and group purchasing organizations are just a few of the challenges impacting this industry.

Furthermore, pre-2020 market trends have only accelerated. A greater reliance on eCommerce ordering, customer preferences for delivery and takeout, an increase in the prevalence of ghost kitchens (projected to reach a \$1 trillion global market by 2030, according to Euromonitor), and the need for foodservice distributors to provide truly value-added services to create differentiation, especially with independents, are each adding pressure to a disrupted industry.

The nature of foodservice distribution, even without these compounding challenges, is already complex. The sheer number of customers, products and sales reps makes optimal commercial decisions difficult, often leading to margin leakage and loss of wallet share. For companies who have yet to invest in digital technologies, commercial challenges became even more acute in recent years. While technology isn't the silver bullet to address all the challenges we've presented thus far, it can make a meaningful impact in terms of driving profitable growth. In this whitepaper, we'll explore how.

PRICING AS A LEVER FOR PROFITABLE GROWTH

Pricing is by far the most effective profit lever available to any company. In foodservice distribution, it's a game of inches, not miles. Imagine a district sales rep (DSR) visits 8 to 10 operators each day. If each customer prefers to place his or her order with the DSR, the DSR is likely making upwards of 1,000 pricing decisions per day, with each decision often made within in a matter of seconds. Sub-optimal decisions across those thousands of pricing decisions can add up to significant lost margin.

As prices change once or multiple times each week due to cost changes, pricing teams not only struggle to keep up with the pace of cost changes, but DSRs typically only have the bandwidth to review the new prices for their top 20 customers. Only the most seasoned DSRs know their customers well enough to make adjustments that align with customer expectations, and even then, the process can take many hours each week. New DSRs without this experience aren't able to adjust prices to match the market and instead spend their time responding to customer price exception requests. DSRs inevitably default to rule-of-thumb margin targets for different product categories or rely on the last price that successfully won the business.

The pricing behavior of the DSR is a result of companies setting overly broad bracket pricing or using a rudimentary cost-plus approach. This makes it insufficient, more often than not, to support most DSR pricing decisions or eCommerce channel pricing, and often fails to ensure consistency across DSR-led and digital channels.

In turn, prices often fail to capture the full market value of products; in other cases, products are overpriced and customers split their order volumes by cherry-picking the items most attractive to them — the ones usually least profitable to the distributor.

As more orders are placed through eCommerce channels, the lack of granularity in pricing is a recipe for customer dissatisfaction and lost margin or sales, or both. Operators have significantly more visibility to prices across suppliers thanks to the shift to eCommerce, further necessitating pricing to be highly personalized and dialed in for each customer as they comparison shop. As this shift continues, generating a market-aligned price for each and every customer for every potential order is the key to remaining competitive.

This is where price optimization and management software can make a significant difference. Price optimization software simultaneously accounts for all the factors that drive price, rationally aligns price/customer/order/product relationships simultaneously, and statistically measures what drives price response in the market, all while enforcing necessary guardrails and producing prices for all of the price types.

It starts with readily available transaction data — the customer, product and order data that foodservice distributors capture in the course of doing business. Other data sources such as competitive pricing data, eCommerce data and cost indices can be incorporated as well to further improve the pricing model.

From that data, you can segment customers into small groups that have similar price response and measure the price elasticity on an ongoing basis for each segment. Taking a surgical approach to pricing, and actually optimizing prices, by measuring price elasticity and setting goal-seeking pricing strategies to maximize revenue or profit, can have a dramatic impact on profitability while minimizing risk of losing the sale and improving responsiveness to market dynamics.

Price management software, used in conjunction with price optimization software, provides foodservice distributors with the ability to set and dynamically update market-aligned prices as a result of cost changes and other market factors across all price types that exist in their business: bracket prices, highly-segmented negotiation price guidance for DSRs, and customer-specific prices. These prices need to align across go-to-market channels, be delivered in real-time and make sense to both customers and sales reps.

Here's how pricing software can address each price type:

- **Bracket prices:** These prices are usually used with net new customers and for items not part of a current customer's order guide, as well as what a customer would typically see when searching for a new item on a distributor's eCommerce site. For many foodservice distributors, these prices are overly broad, with nearly all customers misassigned to the most favorable, lowest price bracket. Price optimization software, such as **Zilliant Price IQ®**, can improve the granularity of the brackets to make them more relevant, optimize the prices within each bracket, and intelligently reassign customers to the appropriate bracket based on their spend or potential spend. **Zilliant Price Manager™** can be used to easily and dynamically update bracket prices based on cost changes or other market factors and manage customer assignments.

- **Negotiated price guidance:** Sales reps need to be able to quickly provide pricing to operators at the time of order and update order guide pricing efficiently. Negotiation price guidance, produced by Zilliant Price IQ®, in the form of a deal envelope (start, target and floor prices) can be provided to sales reps within the order management tool to help facilitate these decisions and give sales reps clear guardrails from which to make pricing decisions.
- **Customer-specific prices:** The last price a customer paid for an item, especially a frequently ordered item, often serves as the anchor for what price the customer is willing to pay going forward. Price IQ® and Price Manager™ can produce optimized customer-specific prices that factor in what a customer should be paying for an item in the context of the last price paid to ensure that suggested price moves are within the customer's tolerance. These prices can be delivered in eCommerce systems and in the order guide to ensure prices are aligned across channels for the customer.

EXPANDING WALLET SHARE AND DRIVING TOP-LINE REVENUE GROWTH

Addressing pricing solves just one piece of the commercial equation. Foodservice distributors are also seeking topline growth — and the best place to find that growth is often with existing customers.

With so many products to sell and customers to manage, it can be difficult for DSRs to know if they are getting all of an operator's business or if the operator is beginning to purchase certain categories from a competitor. Even in national accounts, it can be difficult to spot when a location is not purchasing the contracted volume and products. As ordering moves to eCommerce channels, this becomes even more difficult for reps to spot over time. Trying to determine which additional products customers should be buying and intelligently recommending those products in eCommerce channels can't be done through manual means.

To grow customer relationships, foodservice distributors are embracing a new centralized approach that uses AI to generate sales growth intelligence faster and drive specific actions for sales reps and recommendations for customers. **Zilliant Sales IQ®** and **Campaign Manager™** give teams the AI horsepower and control to set, refine and execute sales strategies. These include:

- **Prospecting or whitespace actions:** Determine the best fit products for new customers by leveraging data science-driven growth insights and any available business attributes to match new customers to their closest peer group in your customer database. Based on these peer groups' purchase behavior, you can isolate specific product or product category recommendations and push these out as new actions to reps. DSRs will have a great starting point for conversations with new customers and prospects.
- **Recovery actions:** It can be difficult to identify when a customer is beginning to defect. Pinpoint at-risk customers from the earliest sign of churn on one or more product categories, showing exactly which product categories to aggressively target with a recovery sales campaign. Route these recovery actions directly to DSRs and track their follow-up, remind customers to purchase the items in an eCommerce channel, or run a marketing campaign focused on winning back the customer's business.

- **Growth actions:** You know what your current customers are buying but do you know what else they should be buying from you? Advanced data science can compare each customer to an ideal customer profile, revealing growth opportunities that would be impossible to identify manually. Deliver these customer actions directly to DSRs or recommend additional products to customers through an eCommerce site.
- **Win-back actions:** You know you need to target lost business, but what is the most effective pitch? How can DSRs identify which products are going to grab a former customer's attention enough to bring them back in the fold? An analysis of historical data, looking at customer-specific peak year spend can identify the most promising win-back actions and transform those into guidance for DSRs.
- **Inventory actions for the targeted selling of excess inventory:** Aging inventory or inventory that is nearing end-of-life is one of the insidious margin killers. Intelligent sales software can match inventory you need to move with customers most likely to buy it. Deliver this insight to sales reps, surface it as a recommendation to customers through your eCommerce channel or into a marketing automation tool for an account-based email campaign.
- **Contract compliance alerts for contracts not meeting volume commitments:** For national accounts, many of which are tied to volume commitments, foodservice distributors need a mechanism to track whether volumes are on track to be reached or not, with enough notice to do something about it. AI can analyze agreement and order data and consider the length of agreement and run rate to flag agreements and ship to locations with volume commitments that are not on track to be satisfied.
- **Product substitutions for the targeted selling of preferred brands or substitutes, such as higher margin private label or white label products:** Every point of margin counts in this industry. Selling preferred suppliers' products or private label brands are a great way to boost profits while providing a favorable deal to the operator. Use data science to determine those customers that are the best target for product substitution and deliver that intel to a sales-facing application, CPQ system or eCommerce.

Power Intelligent Commerce

Foodservice distributors who are embracing technology to more intelligently make commercial decisions are reaping the benefits, even in challenging times. Companies typically realize a 100 to 300 basis point gross margin improvement as a result of better pricing, and a 5 to 15% increase in same customer sales as a result of using predictive sales guidance to grow the topline.

For more information on how Zilliant enables foodservice distributors to power intelligent commerce, hear directly from some two of our foodservice distribution customers:

Pro a Pro and **Metro France**. You can also visit us at www.zilliant.com.