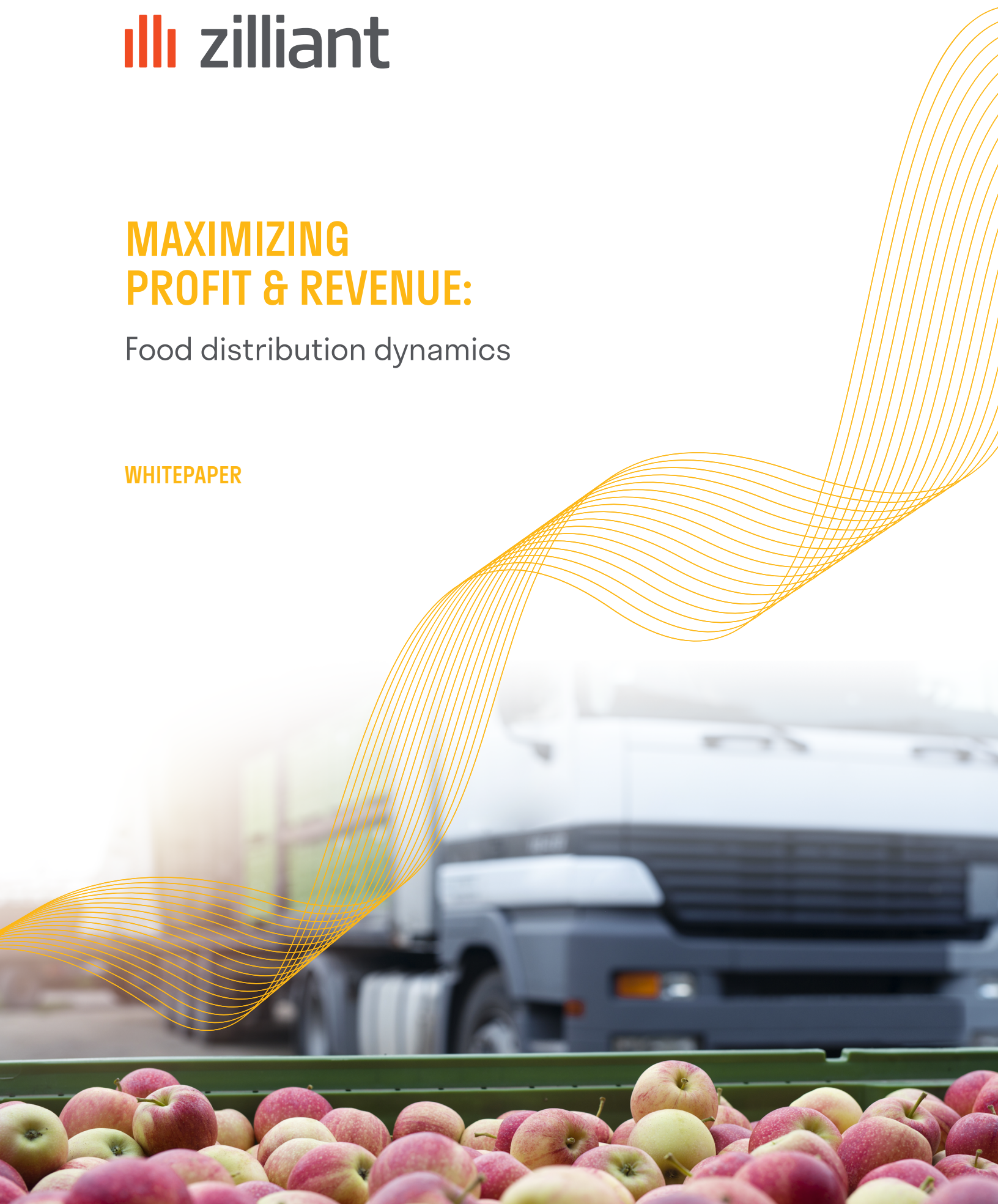




# MAXIMIZING PROFIT & REVENUE:

Food distribution dynamics

WHITEPAPER



# MAXIMIZING PROFIT & REVENUE:

## Food Distribution Dynamics

### CONSIDERATION

The typical churn rate, the rate at which customers stop doing business or drop volume with their vendors, is as much as 20 to 30 percent of sales. It's nearly impossible for reps to spot churn on each account given the sheer number of products and customers in their books of business.

### MORE GPOS AND MULTI-UNIT OPERATORS

For broadline foodservice distributors, a customer landscape that was once dominated by the independent operator has shifted in recent years to more GPOs and multi-unit operators with centralized purchasing functions, giving buyers significantly more purchasing power. According to "Foodservice 2020: Global, Consolidated & Structured," published by The Hale Group, 79 percent of operator segments will be controlled by consolidated operator purchasing groups by the year 2020. This shift in the customer landscape paired with the massive complexity in the typical food distribution business has made it increasingly difficult to maintain margins and grow revenue. As a result, food distributors must find new ways to combat these challenges.

### USE PRICING TO BOOST PROFITABILITY

Pricing is by far the most effective profit lever available to any company. In food distribution, success means offering the broadest product line possible, while also getting paid for the value-added services you provide. However, setting and realizing the best price for each and every selling circumstance isn't straightforward. Cost volatility coupled and the sheer number of products, product categories and customers make it nearly impossible to set and quote a market-aligned price for each and every deal.

As a result of the commodity nature of food prices, most distributors are forced to update prices on a weekly basis, an onerous chore given the number of product and customer combinations. Without sophisticated solutions to optimize prices, category managers often calculate suggested street price "brackets" for products by using standard markups over cost. These brackets are given to sales, but they aren't specific to each customer and overall don't reflect the granularity that exists in the marketplace. Since the brackets aren't relevant to their deals, sales reps often ignore them and instead apply subjective judgment to quote prices. Without market-aligned pricing, money is often left on the table.

Sales reps, who are largely responsible for the prices brought to market, cover hundreds of customers, who buy thousands of products. When prices change each week, reps only have the bandwidth to review the new prices for their top customers. The most seasoned reps know their customers well enough to make adjustments that align with customer expectations, and even then the process can take many hours each week. However, new reps without this experience aren't able to adjust prices to match the market and spend their time responding to customer price exception requests.

As a result, prices often fail to capture the full market value of the 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 new competitive threats emerge and customers gain even greater purchasing power, setting the right price and quoting the right price for each and every deal is proving to be more challenging, ultimately putting downward pressure on margins.

## ENABLE SALES TO RETAIN CUSTOMERS AND GROW WALLET SHARE

Given the changing competitive and customer landscape, hitting top-line revenue targets while maintaining profit levels has become harder and harder for food distributors. Increased pressure from competition, including “cash and carries” enticing operators away, has made it increasingly difficult for food distributors to minimize customer churn. The typical churn rate, the rate at which customers stop doing business or drop volume with their vendors, is as much as 20 to 30 percent of sales. It’s nearly impossible for reps to spot churn on each account given the sheer number of products and customers in their books of business.

Compounding the issue, the size of sales teams at most broadline foodservice distributors has actually been reduced. With more choices and greater purchasing power, buyers are more prone to cherry-picking and/or defection. Both scenarios contribute to a recipe for disaster, forcing distributors to leave money on the table and lose share to competitors.

On the surface it would seem that the answer is bringing in a team of analysts to produce reports that sales reps can use to retain customers and identify cross-sell opportunities. But the problem is that reps simply don’t read these reports, they aren’t analysts and they don’t have time to translate a spreadsheet into actionable insights. The reports go stale and sales reps are still unsure which customers are defecting to competitors and which customers should be buying additional products.

## A BETTER RECIPE FOR SUCCESS

Predictive technology can significantly minimize many of these challenges and transform how companies run their business.

If you need to pull the pricing lever and boost profitability, a predictive model helps you set market-aligned prices that account for every selling circumstance. It allows you to understand how pricing strategies will impact your future P&L performance, before you put prices into market. You can plan for future cost changes, forecast your P&L performance, and use pricing as a strategic lever to meet your business objectives at the micro-market level. More importantly, you can deliver market-aligned price guidance directly to sales reps in the quoting systems they use today.

Several large food distributors are already using this approach. Eight weeks after introducing optimized prices into select regions, one food distributor saw a margin dollar lift of 10.1 percent while holding order volume steady. Feedback from sales showed convincing evidence that sales people spent less time haggling over prices each week and more time servicing their customers’ many other needs.

Another solution exists if you need to boost revenue and organic growth by staving off competitors, while expanding wallet-share with existing customers. Powerful new guidance applications apply math and science models to a company’s existing transaction data to deliver valuable sales opportunities. They require little to no work on the part of sales reps and deliver actionable opportunities directly to the field, enabling them to spend more time selling.

Your sales reps can spend more time talking to the right customers with the largest opportunities for wallet-share growth. And executives can rest assured knowing that deals are closing within an optimal price range.

For more information, visit [www.zilliant.com](http://www.zilliant.com)