IFDA WORKSHOP NOTES

On October 21, 2009, a Workshop was held at the IFDA Distribution Solutions Conference in Baltimore. The Workshop topic was "Top Purchasing Pain Points and How to Heal Them."

The group of foodservice distributors and manufacturers focused on three areas:

1. Weak Pickup Programs
2. Short-Ships Without Advance Notification
3. No Bar Codes or Unreadable Bar Codes

Participants considered why disconnects continue to exist between manufacturers and distributors, even though these issues have been around for many years. We identified the barriers to change, and discussed what each side could do to help remedy the situation. The following is a summary of the presentation and ensuing discussion.

1. Weak Pickup Programs

Most distributors have ramped up their efforts to pick up orders at manufacturers' plants and distribution centers, either using their own equipment (backhauling) or contracting with a third party carrier. Reasons cited include the opportunities to:

- Improve Return on Assets by increasing use of tractors and trailers
- Reduce Total Procurement Cost and increase Gross Margin
- Gain control of logistics

While most manufacturers offer Customer Pickup programs in the form of allowances off delivered price, or "FOB Pricing," distributors often feel that these allowances and prices do not provide appropriate incentives.

Typical distributor comments include"

- *"It costs me $400 to pick it up, but the allowance is only $250."*
- *"Manufacturers must be making money on freight."*
- *"Manufacturers don't know their own costs."*

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But interviews with manufacturers showed that there are valid reasons for the disconnect. Some cannot offer Customer Pickups at their manufacturing plants because the facilities are not configured to support order picking and staging.

Others cite very favorable outbound freight rates from carriers, due to their overall tonnage (which often includes Foodservice products riding with Retail products). In these cases, the manufacturer's savings from a CPU are less than the distributor's cost to CPU, so the allowance seems "unfair" to the distributor.

Often, manufacturers are hesitant to give up the "control" that the distributor is trying to gain. They have concerns about:

- having "clout" with their carrier <u>suppliers,</u> vs. being at the mercy of their <u>customer's</u> transportation department
- reliability in meeting dock appointments, when dock space is tied up with staged CPU orders
- losing volume with carriers, and therefore paying higher rates on delivered orders

The Workshop group agreed that this Pain Point can be eased if:

1. Manufacturers will develop and communicate a clear strategy regarding Customer Pickups
2. Manufacturers will base allowances on their savings for specific freight lanes and order sizes, not "broad brush" averages
3. Distributors will adhere to manufacturer CPU policies regarding Order Minimums, Pallet Quantities, Appointment Times, etc.

A reasoned discussion involving sharing of numbers should bring both parties to a logical conclusion.

2. Short-Ships Without Advance Notification

Distributors also expressed continued frustration with some manufacturers' inability to notify them in advance when products are cut from an order. Out-of-stock cuts are a major pain point because they:

- Reduce the distributor's outbound fill rate and customer satisfaction
- Force the distributor to spend time and money "scrambling" to find product or work out an acceptable substitution
- Result in lost sales that cannot be recovered

If a cut cannot be avoided, distributors at least want advance notification so they have more time to respond. As one distributor put it, *"the supplier knows what's on the truck when it leaves his dock; why can't he call and tell me?"*

But manufacturers face real barriers in addressing this issue. While EDI technology offers the potential for timely communication, many distributors do not have the capability to receive Advance Shipment Notifications. Even when they do, many shipments leave the dock after business hours, and arrive before the customer would see the ASN.

More fundamentally, large manufacturers cite the sheer volume of shipments from multiple shipping points as a barrier. The resources required to manually gather short-ship information and call distributors would be significant. Further, the people in the warehouse would need to know who to call at each distributor. In the case of a public warehouse, this list would need to include multiple people at each distributor, based on product category.

One manufacturer noted that his company does a good job of identifying <u>pending cuts at the time of the order,</u> and his Customer Service Department communicates with the customer and offers options at that time. Unforeseen "dock cuts," however, remain difficult to communicate.

Potential solutions include:

1. Having distributors provide a 24-hour phone number or website that manufacturers could access to provide advance notification of cuts
2. Manufacturers investing in the forward-looking technology that assigns inventory at the time of the order, allowing Customer Service to identify problems and offer options
3. Both parties investing in expanded EDI technology to take full advantage of ASN capability

Finally, one manufacturer suggested that "if it's a serious enough issue, make it a requirement of doing business with you." Short of that, manufacturers are unlikely to make a significant investment based on occasional complaints.

NOTE: The above comment rings true for most of the ongoing friction points that exist between manufacturers and distributors. We had a healthy discussion about the importance of linking "customer satisfaction" with "business impact." While a supplier does not like receiving complaints from distributor customers, there is little incentive to change as long as the orders keep coming. Conversely, when a manufacturer invests in providing great service, but is treated like a poor supplier during price and program negotiations, he will quickly lose interest in playing the game.

3. No Bar Codes or Unreadable Bar Codes

Some in the group were surprised to learn that the problems around bar coding continue to cause pain, some 30 years after bar coding became common practice. Distributors acknowledged that it is mainly small manufacturers who are not providing bar codes on cases. But they also pointed out that even the largest suppliers occasionally have trouble with unreadable, missing, or incorrect codes.

The cost to the distributor is reflected in time. Receivers, Pickers, and Lift-truck Operators all need to stop and manually enter information when bar codes are missing or unreadable. Accuracy of inventory information is also compromised. And perhaps most importantly, concerns about traceability arise when there are bar code issues.

The guilty manufacturers are slow to respond because the problem does not affect their internal operations, and they do not feel a negative impact on their business. But just as investment in advance cut notification is unlikely without a business incentive, distributors were advised to "make bar codes a priority and hold manufacturers accountable." By continuing to receive and handle products without codes (or with bad codes), distributors send a mixed message to their suppliers.

The Workshop closed with a general discussion about the need to expand manufacturer/distributor communication beyond the traditional "salesman/buyer" relationship. All parties were encouraged to involve their Operations and Supply Chain people in meetings and conference calls, especially when service issues are on the agenda. And as always, open sharing of data is advised when it can help build understanding and trust among manufacturers and distributors.

Thank you to all of the distributors and manufacturer who participated in the Workshop. Your question, comments, and ideas are welcome at 239/395-2787, or dave@franklin-foodservice.com.