



## **“Your Costs Don’t Care What Label’s On The Box”**

When discussing redistribution opportunities with manufacturers, I often hear things like “we can’t afford to put our national accounts business (or private label business, or special price business) through redistribution because the margins are too thin.” This is an understandable attitude, because the redi allowance cost is very easy to identify and track, and at first blush may appear unreasonably high.

Of course, the only way to define “too high” is in comparison with your current costs of serving the business directly; these costs are considerably more difficult to identify and track.

Some manufacturers make the mistake of viewing redi allowances as 100% incremental cost. Others understand that redistribution provides relief in logistics and order management costs, but also can become misled if they compare their redi allowance to their company-average freight cost.

What is needed is a thorough understanding of your actual logistics and order management costs for the business you are considering putting through redistribution, not your company average.

When these costs are spread across a 2,000 lb order they yield a very different picture than when spread across a 20,000 lb order. Because a lot of national account, private label, and other specialty business goes out in small orders, it is critical to isolate and understand your actual current costs before dismissing the redistribution option.

You see, logistics and order management costs “don’t care” what label’s on the box, what customer name is on the bill of lading, or what price is on the invoice. They flow by the pound, by the case, or by the order, and can be reduced or eliminated via redistribution regardless of the type of customer being served.

Once you have calculated the cost impact of putting a piece of business through redistribution, you must also turn your attention to any special pricing arrangements, and how they will be impacted by redistribution. That’s a topic for a future issue.

*Dave DeWalt is President of Franklin Foodservice Solutions. His company works with manufacturers in the foodservice and jan-san channels to improve profitability by tightening the links between Supply Chain Realities and Sales and Marketing Decisions.*

*For much more on Price Structure, Redistribution Strategy, Product Line Optimization, and other services, please visit [www.franklin-foodservice.com](http://www.franklin-foodservice.com)*