



## **“Guerilla Redistribution”**

It usually starts when you offer a special price to a special set of distributors on special items. The deal is intended to be confined to a certain geographic market (often a large metro area) and/or to distributors and jobbers who serve a niche channel (such as mobile caterers or ethnic restaurants). It's a strategic decision to gain or hold onto a chunk of volume that is heavily dependent on low prices.

Your special price (plus any sheltered income or allowance programs) provides a low net cost to these customers; often significantly lower than your published prices. And while the deal enables you to reap the niche-market volume, it can get these distributors thinking about other “opportunities” which may not be in line with your overall strategy. You may well learn that your special-priced products are being sold not only to operators outside the niche channel, but also to smaller distributors who do not qualify for your deal. Your “special customer” has become a “guerilla redistributor!”

So what's the problem?

First, this behavior upsets your price structure in the marketplace. When your “niche market distributor” starts knocking on street operators' doors with a hot price on your branded product, you're going to hear about it from your broadliners. And good luck getting them to accept your next price increase.

Second, this behavior upsets your legitimate redistributors. Ideally, your redistributor should be offering your highest two or three published bracket prices. But when they continually lose orders to the guerilla redistributor, they may well be motivated to offer special prices of their own. And because they agreed to your allowance based on an assumed gross margin, their profit picture goes out the window.

And third, this behavior will ultimately upset you. Because once a redistributor deviates significantly from your highest published prices, he may attract orders from large distributors who should be buying direct from you. And if your cost to serve these existing customers goes up when they buy from your redi, it's going to hurt your bottom line.

So what's the answer?

You could stop making special price arrangements for specialized businesses, but that's not realistic. When they work properly, these arrangements make good business sense.

You can blame the special-market distributor for trying to make a quick buck (or dime or penny) on your product by straying from his core market. But as we've written before, a lot of these guys are highly opportunistic business people, and when you give them the chance, they'll make a deal. There is no law against it.

So you need to enter into these agreements with a great deal of care. You need to make clear to your special-priced distributor that at the first sign of guerilla redistribution, the deal will end. And you need to make your redistributor aware of these deals up front, so together you can discuss the ramifications and how you will deal with any problems. It may not be necessary to get into the actual prices, but it's healthy to acknowledge where special price activity is taking place.

Any time you begin to tinker with prices, it's important to consider the impact on your redistribution program. A little up-front conversation with your redistributors can prevent a lot of cleaning up after the fact.

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*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)*