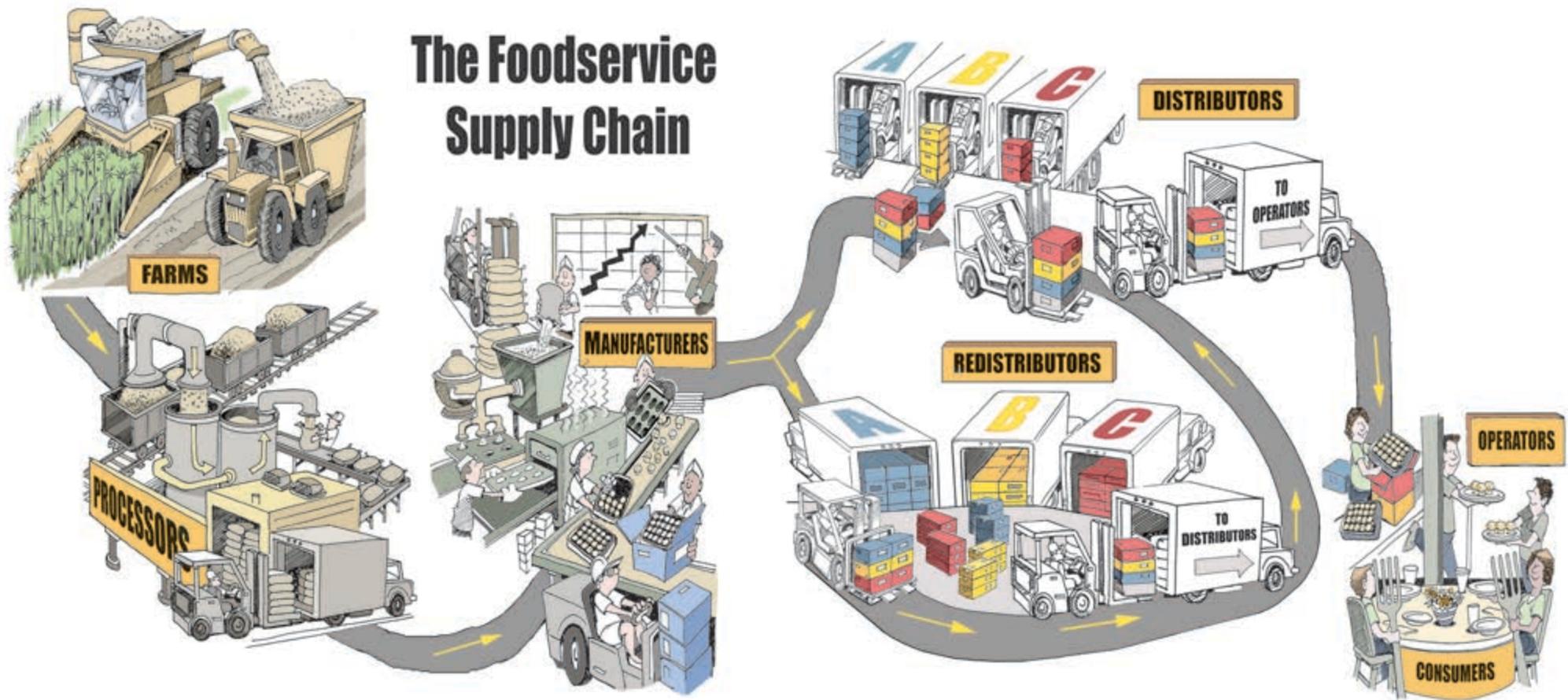


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# Navigating the Foodservice Channel

*A Guide to Understanding the Foodservice Business*

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# Introduction

*“We’ve got a nice Retail business going, and are ready to tackle foodservice. What should we do first: hire brokers, call on operators, or call on distributors?”*

*“I’ve spent the last 12 months crisscrossing the US, trying to establish a foodservice business for my company. I’ve met with countless brokers, distributors, buying groups, purchasing organizations, and contract feeders, and have sold precisely zero.”*

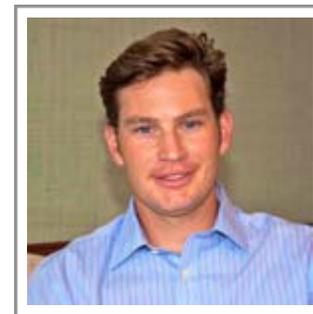
The first statement is a composite of dozens of phone calls and emails we’ve received in the last few years, and represents a typical starting place for manufacturers seeking to break into foodservice. The second is an actual quote from a 30 year food industry veteran, whose company does very well in retail and foodservice outside the US.

While the majority of our client work involves large, well-established companies, we wrote [Navigating the Foodservice Channel](#) to provide a roadmap for manufacturers who are new to foodservice. It will undoubtedly save you countless hours and thousands of dollars that would be spent on trying to figure it all out for yourself. And it will give you a huge leg up on understanding the complex relationships (and conflicts) that exist among manufacturers, distributors, operators, broker agencies, and the many related organizations at work in the foodservice channel.

We wish you every success and look forward to meeting you on your foodservice journey.



Dave DeWalt, President



Drew Chicone, Partner

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## Distributors as a Third Party

The first is about the flow of products down the supply chain, and how costs are viewed differently among Retail and Foodservice participants.

Figure 3: Foodservice vs Retail - Impact on Distribution

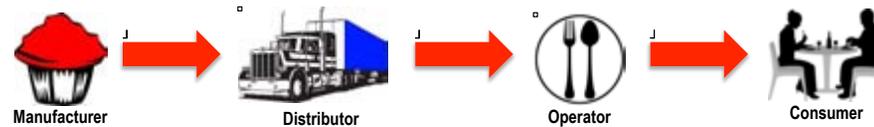
### *Foodservice -vs.- Retail - Impact on Distribution*

#### Retail Distribution



*(Warehouses and Stores are operated by the same company)*

#### Foodservice Distribution



*(Distributors and Operators are separate companies)*

## Key Concept

While Contract Feeders and GPO's act as Purchasing Agents for their Operators, they do not place orders, take delivery of goods, or make payments to Manufacturers. Rather, the business which is negotiated still flows through traditional Distributors such as Sysco and US Foods.

Many Manufacturers aggressively pursue business with chains, contract feeders, and GPO's, lured by the promise of high volume without having to call on thousands of individual Operators. While the volume potential can be huge, there are also downsides including:

- Thin margins
- Compliance issues (individual Operators electing NOT to use the specified products, making the Manufacturer's sales volume fall short of expectations)
- A lot of additional paperwork to reconcile contract prices based on Proof of Sale from dozens of Distributors to thousands of Operators

As stated earlier, Operator Demand is the "Holy Grail" for Foodservice Manufacturers. But the Operator community is incredibly diverse and fragmented. Even Contract Feeders and GPO's require Manufacturer Sales and Marketing presence at both the headquarters and unit levels, as do many chains. So established Foodservice Manufacturers and especially new entrants are challenged to create awareness and interest in their products among Foodservice Operators.

Operators are by nature busy people who put in long hours to make their establishments successful. Their appetite for sales calls is very limited, and probably based on:

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# 7. The Broker Agencies

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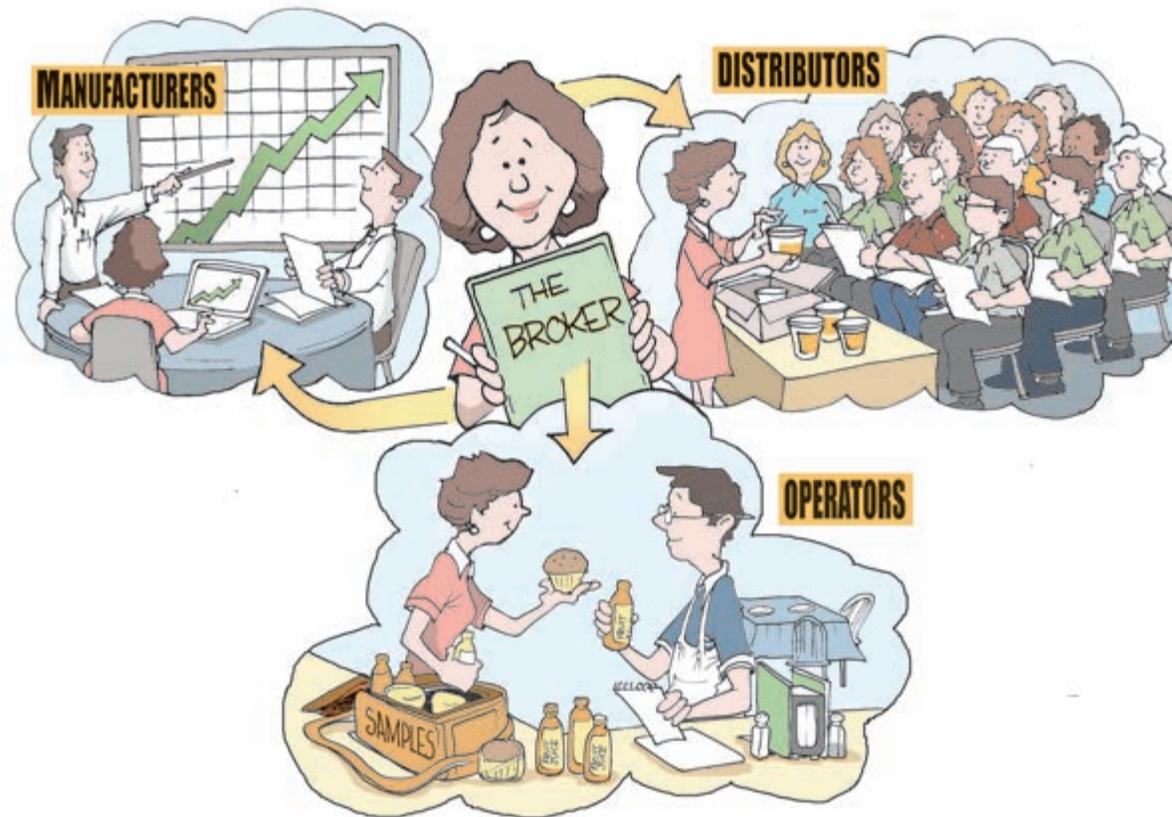


Figure 7: Conflicting Channel Member Goals

Goal	Manufacturer	Distributor	Operator	Broker Agency
Minimizing marketing spending	X			
Maximizing marketing income from Manufacturers		X		
Having their product stocked in as many places as possible	X	X		X
Having “sole Distributor” rights on key products and brands		X		
Large outbound shipments to customers	X	X		
Smaller, frequent inbound shipments from suppliers		X	X	
Full pallet shipments (one product per pallet)	X			
Mixed pallets containing exactly the quantity they need for each product		X		
NOTE: These are areas where trading partners’ goals can be in direct conflict				