

The Dangers of Redistribution On Value-Added Services and Margins

It has come to the attention of the FEDA board that several foodservice equipment and supplies manufacturers have recently opened up a new channel of distribution in the industry, the food and broadline redistributor. A food and broadline redistributor is a company whose business consists primarily of the distribution of products to food distributors and broadline food companies rather than end users.

These redistributors allow food distributors and broadline distributors, both large and small, to purchase products economically that they could not purchase directly from the manufacturers. By definition, redistribution therefore either serves smaller distributors or distributors that have not made a significant inventory or sales and marketing commitment to a product category or manufacturer.

Redistributors in the food business typically buy at manufacturers "best price" due to the significant volume commitments they make to the manufacturers. Their goal is to sell to their customers (food and broadline distributors) as close to this "best price" as is possible. In addition, several redistributors are offering to report volume information on food distributor purchases back to the manufacturer so the food distributor is able to receive the rebate on the items purchased.

How can redistributors buy at the best price and sell at the same price while passing along rebates to the distributor? It is made possible by additional manufacturer allowances or incentives that offset the redistributor's costs of holding and distributing inventory. These allowances can range as high as 20 percent.

FEDA is very concerned that manufacturers have not fully considered the implications of supporting redistribution of foodservice supplies and equipment to food distributors and broadline distributors. By allowing redistribution of foodservice supplies to food and broadline distributors, the manufacturers are in one fell swoop opening up thousands of additional distributors. These distributors are by definition only marginally invested in the supplies and equipment business. This is counter to NAFEM's push to reduce points of distribution and ask for higher levels of support, training, and commitment from the remaining points of distribution (hence NAFEM's dealer education initiative).

To make matters worse, these "uncommitted distributors" can now purchase foodservice supplies at the manufacturer's best price that was formerly only offered to foodservice dealers who made significant investments in inventory, sales efforts and other critical value-added services. Thus, in essence, the manufacturers have put these uncommitted distributors in an advantaged position over their long-standing channel of distribution that has committed to inventory and sales efforts on behalf of the manufacturer. There can be no faster way to destroy margin in the channel than by making the product available to an unlimited number of distributors. And destroying margin in the channel will eliminate the ability of dealers to stock product and support manufacturers through local inventory and dedicated salespeople.

FEDA takes a strong and unequivocal stand that supporting redistribution by giving additional discounts and allowances to redistributors is a mistake and will lead to a significant decline in the ability of committed dealers to bring value to their manufacturers and customers. FEDA also believes that opening foodservice supplies to redistribution by uncommitted food distributors, even without the additional price support offered to redistribution currently, helps destroy the ability of committed dealers to support their manufacturers. FEDA will act to bring attention to manufacturers that support redistributors by extending additional discounts and allowances, and will ask its members to carefully consider those facts when making their purchasing decisions.

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