



The Evolution of the Foodservice Industry

What Changed, Why, and How to Adapt & Thrive





Welcome

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Workshop Objectives

- Examine foodservice channel's evolution
- Comparative analysis of channel & segments
- Progression of TPM regulatory climate
- Political, economic & consumer factors
- Implications to Trade Promotion Management



Foodservice Evolution

Grew out of retail supply chain

- Manufacturers – Distributors - Operators

The “Pendulum of Power”

- '60's: MFR driven – Brand driven
- Retail PL evolves

“The arrogance of manufacturer pricing of brands opened the door to private label, and the pendulum swung even further toward the distributor segment”



Foodservice Evolution

1960's Foodservice Distribution evolves

- The **S**ystems and **S**ervices **C**ompany
- Add'l distributor "buying groups" develop
- Private Label is adopted as a strategy
- MFR reacts by increasing trade spending



Foodservice Evolution

1. Dilution of Brand leverage
2. Ineffective trade promotion efforts
3. Rise in distribution channel demands

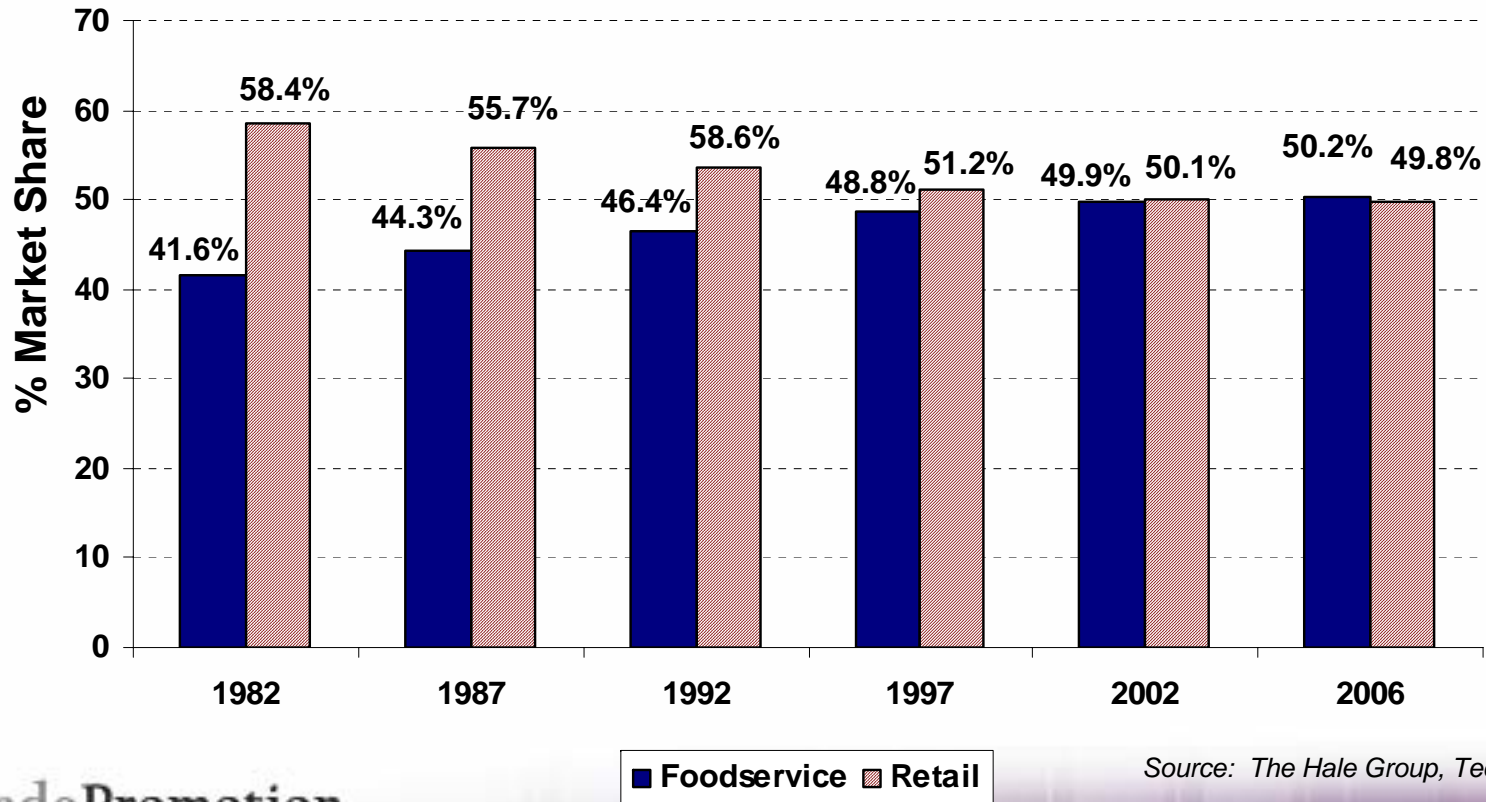
TPM Implications

- ➔ *Increased % of marketing budget against trade*
- ➔ *Increased real spending in channel*
- ➔ *Lower gross profits for mfr*



Foodservice verses Retail Growth

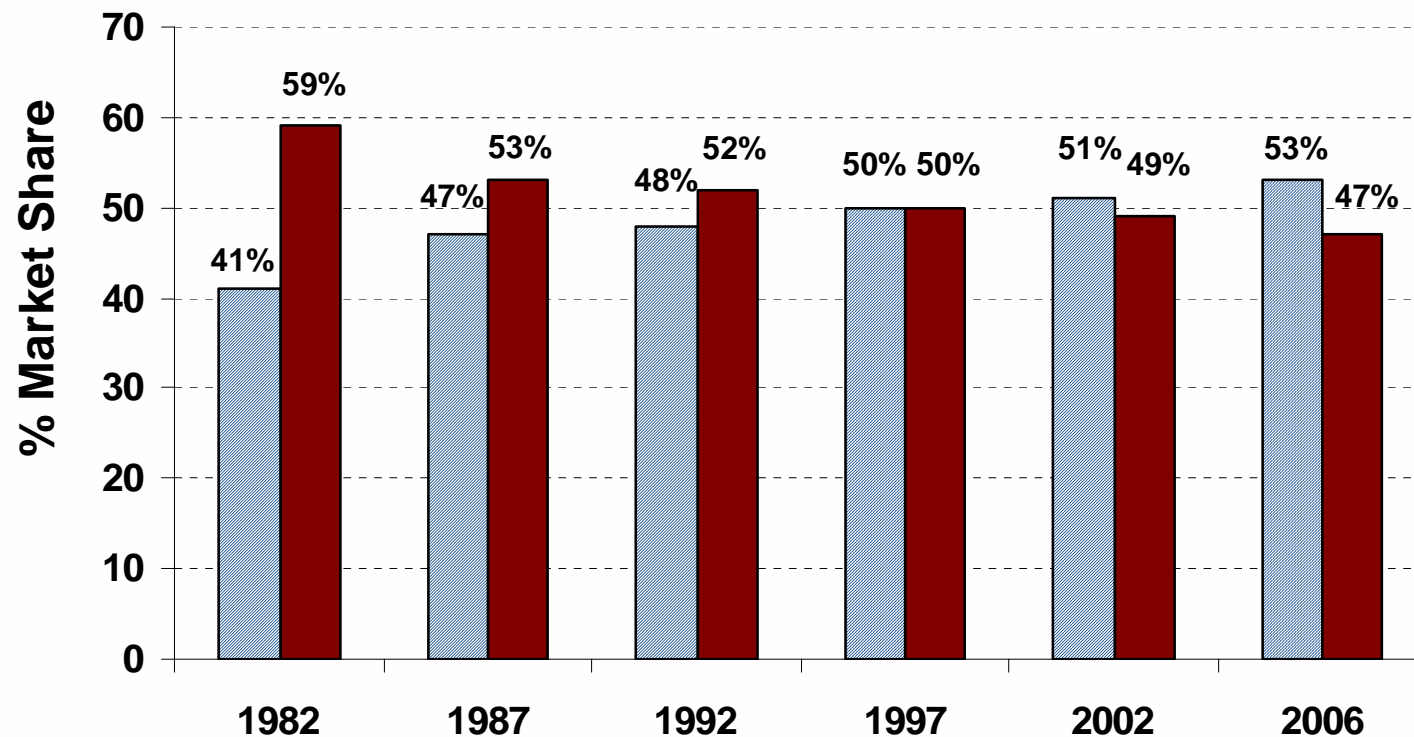
Foodservice has surpassed Retail for the greater share of consumer expenditures





Chain Restaurant Growth

Chain restaurants continue to grow share



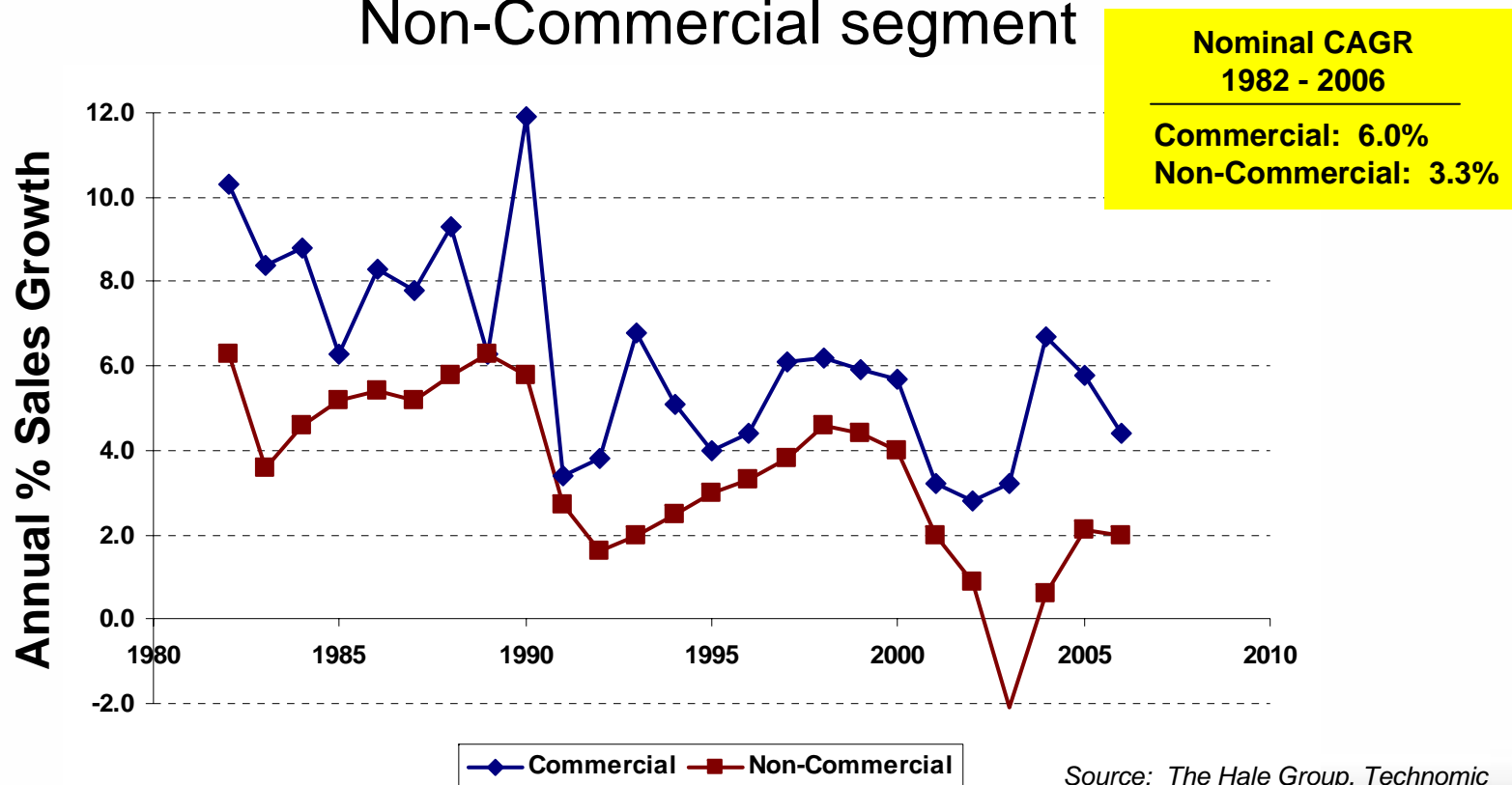
■ Top 100 Chains ■ All Other Restaurants

Source: The Hale Group, Technomic



Commercial versus Non-Commercial Growth

Commercial segment growing at twice the rate of the Non-Commercial segment





Discussion

Implications

1. **What is the Pendulum's direction now?**
2. **Will Retail vs. FS shares continue to rise?**
3. **Is there a resurgence in Brands in FS?**

Action Steps



Regulatory Evolution

- **Sherman Anti-Trust act (1892)**
- **Clayton Act (1914)**
 - predatory pricing: outlawed favoring one buyer over another
 - Loophole: Favor thru rebates
 - Federal Trade Commission established



Regulatory Evolution

- **Robinson Patman Act (1936)**
 - Focused specifically on discriminatory pricing
 - Chains continued to dominate, and independents failed
 - Fred Meyer Case 1968
 - Claimed that large customers could demand bigger discounts
 - Meyer lost, but FTC accepts practice of VOLUME discounts
 - Additional minor revisions in 1972 and 1990



Regulatory Evolution

SIDEBAR 1

- **Wage and Price Controls** (early '70's)
 - When lifted, MFR's raised "list prices" and rebated
 - Feared re-imposition of controls
 - Created cycle of steadily increasing allowances



Regulatory Evolution

SIDEBAR 2

- **Rise of tech industry (early '80's)**
 - Hardware MFR's provided extensive dealer assistance programs
 - Training
 - Financing
 - Factoring
 - Other retailers began to demand
 - Expanded into other channels
 - Situation was different but spending rose for similar "supports"



Regulatory Evolution

- **Federal Activity Shift in 2000**
 - Direct reaction to corporate accounting scandals
 - FASB EITF 01-9 (late 2001)
 - Sarbanes Oxley (2002)
 - Restatement of earnings
 - Stockholder suits
 - Section 404
 - Prison term for failing to account properly for trade promotion spending



SarbOx Commentary...

“Account for it properly? We don’t know HOW MUCH we’re spending.....WHO we’re giving it to...or what we are buying with it...How in the hell are we going to account for it?”



Resulting Implication

Board Room issue

- Increased division spending awareness
- 2nd largest line item on P&L
- Pressure to improve processes and systems to track and account for it properly
- Increased scrutiny to rationalize and justify spending



TPM Focus & Adoption

WHY haven't companies more aggressively addressed TPM?

10. Board Governance is more conservative than ever
9. "Cost of doing business" attitude
8. Support profits thru outsourcing, off-shoring, downsizing
7. "Ain't broke" (or just cant figure out if it is)
6. "Commitment programs...we've had them since the 40's"
5. Reluctance to revise business process and business rules governing sales process and supply chain
4. Lack of "visibility" into the supply chain
3. Can't get their arms around it...Don't know where to start
2. Want to leave it for the next board, the next CEO, the next division executive
1. Its hard...its really, really hard



TPM in 8 Steps

1. MUST BE A CEO INITIATIVE

2. Perform an internal and external market analysis

WHO are your key customers

WHAT are you selling to them; WHAT should you be selling to them?

WHERE are they sold

WHEN are they sold and how often (repeat sales or new sales)

WHY do your customers buy your product/brand? Can you change that reason? Do you want to?

HOW do your customers buy? HOW do you go to market?

3. Define Program Objective: WHAT are your priorities?

4. Establish a budget

Allocated percentage of sales dollar

current percentage of brand support



TPM in 8 Steps

5. Design the program

“Get help from those who have been there”

6. Sell it

Get the funding and the support needed to initiate change management

7. Create Administrative Procedures

Build the structure and design the business rules that are needed

8. Evaluate the Program

Create a process to constantly evaluate spending efficiency and historic perspective

Join TPMA...



Geopolitical Factors

- US Elections
- Economic Downturn
- Oil Prices
- Global Conflict
- Consumer Confidence



Discussion

- **Regulatory climate after 2008? Why?**
- **Recession? Depth? Implications?**
- **Will oil prices continue to rise?**
- **War economic impact? Tax implications?**
- **Consumer confidence and spending?**



Discussion

Trade Promotion Management Implications?

Action Steps



How to Adapt & Thrive

- Historic perspective of the channels and TPM
 - *“Those who do not study history are doomed to repeat it”*
 - philosopher/poet, Georges Santayana
- The Pendulum is moving back to center
 - Channels must collaborate and GET INVOLVED
- TPMA creates a NEXUS of your needs with those of the industry overall
- ASK for help / Be a HELPER
 - *“It is a great man who realizes that he can accomplish more by asking for help from others, than he can accomplish alone”*



Reference Resources

- ✓ **TRADE PROMOTION MARKETING,**
by Bob Houk (Assn of Nat'l Advertisers, Inc.)
- ✓ **ID ACCESS ONLINE** (Ideal Media LLC)
- ✓ **The Hale Group**
- ✓ **Technomic, Inc.**
- ✓ **THE FOODSERVICE SUPPLY CHAIN,**
by Joseph Famalette
- ✓ **THE ORIGIN OF BRANDS**
by Al & Laura Ries
- ✓ **PURPLE COW** *by Seth Godin*



Thank You

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