



BELLWETHER UPDATE

BELLWETHER FOOD GROUP, Inc.

DATE: December 10, 1008
TO: Clients and Friends of Bellwether Food Group
RE: Developing a Chain Account Strategy

As you are well aware, the relationship between foodservice manufacturers and chain restaurants is the focus of our work at Bellwether Food Group. However, all too often we hear manufacturers tell us that “We have the chain account market pretty well under control – we focus on the top 100 / 200 / 500 chains...” In today’s world of strained manufacturer resources this simply cannot be true. Even if a manufacturer’s chain account sales organization were to try to service this many accounts, their efforts would be too diffused to make any difference.

With the current consumer spending environment, and the dismal monthly and quarterly same store sales performance we are seeing from many of the chains, now is not the time to not have a coherent chain account strategy in place. For many chain or national account sales organizations doing what worked in the past is not an option any more. Up until the past few years, hooking your wagon to the fastest growing chains and supporting them with custom products and solutions was all you needed to do to meet your growth goals. Today, few chains are growing by building new units and expanding into new markets, so manufacturers must be much more selective about where they spend their scarce and valuable resources.

We at Bellwether have spent considerable time thinking about and establishing how a chain strategy should be structured, and developing and implementing those strategies for our clients. This update is intended to outline the overall approach to a chain account strategy, and other updates will follow with the specific steps and actions you should be undertaking to execute against the opportunities to avoid the pitfalls of the chain restaurant marketplace.

Developing a Strategic Framework

In order to develop an effective chain account strategy, it is important to start with a top-down approach – meaning identifying and understanding the largest issues and opportunities for your organization, then outlining the specific focus areas and resource requirements to achieve the goals of the strategy. The remainder of this Update will be devoted to outlining each of these steps. In the upcoming months, we will distribute Updates that look at each step in detail.

The Role of Chain Accounts:

The first step in developing an approach for chain accounts is to understand the role they play in your business, and whether your organization has the right resources and capabilities in place to properly service the chains. Not all organizations are suited to work with chain accounts – some may not be willing or capable of developing custom products and solutions. Some are in product categories (like snack foods and breakfast cereal) that do not have a significant presence in the chains. It is not a safe assumption that your organization should be pursuing chains. Before you devote resources to chain accounts you need to answer the following questions about your organization:

- Is foodservice an important enough part of the organization to allow a different approach for chain customers?
- Do we have the capabilities, resources and experience to develop custom products?
- Are our plants capable and willing to produce shorter runs of custom products vs. retail?
- Can we completely understand the cost structure of custom items (including unique ingredients, packaging, change-over time, development costs etc.)?
- What are the realistic volume minimums for custom products?
- Do these coincide with the size of our potential customers?
- What segments will use our products – and what chain opportunities are in those segments?
- What “hit rate” for successful initiatives do we need to justify the resources needed to service chains?
- Are our internal processes and procedures well suited to working with chains (this includes everything from response time, questions to resolving QA issues and documentation to credit policies)?
- Are chains a realistic growth vehicle given our products, capabilities and other opportunities? Are chains the best option for growth?
- Finally and importantly, can we achieve the types of returns we need to support this initiative versus others?

Assuming the organization is ready to move forward and drive focus and resources against the chain account opportunity, the following few sections will outline the steps to develop and implement the strategy.

Develop a Success Model

The first step in the process is to develop a clear understanding of where your organization has been successful with chains in the past and why. A success model examines past initiatives with chains that have worked out for both your company and the chain. By looking at past successes, you can begin to understand the characteristics of the chain that led to success as well as the resources, relationships and communication on the part of your company that led to that success. By examining a number of these initiatives and highlighting the common themes,

you can build the elements that must be present on your company's part, and on your customer's part in order for the relationship to be successful. This is a valuable and important screening tool to ensure you are going after the highest probability opportunities. If a key element of the success model is missing from an opportunity, you should take a hard look at why you are investing in it.

Develop and Validate your Value Proposition to Chains

A natural outcome of looking at past successes is to develop or articulate your value proposition for chains. There may be more than one value proposition depending on your company's product categories and the segments you are targeting. Once you have developed your value proposition(s), it is important to validate them with your target segments. Work through the elements of your value proposition with current and prospective customers and see if they put the same emphasis and value on the elements as you do. We recently completed this work for a client who was sure that world class manufacturing and QA were valued by their customers – the customers did not value these capabilities as they saw them as tablestakes for any supplier they would use. Aligning your ideas with customer expectations of value is a critical step to ensure you are delivering the right message and the right promises.

Evaluate Your Sales Resources and Support

Now that you have determined that chain accounts are the right area to focus on, you understand how and where you will be successful with chains, and you have validated the value you bring to chains, it is time to take a hard look at the sales organization and the support functions (R&D, QA, Marketing, Ad Agencies etc.) that are in place to support this effort.

To succeed in the long run, you need to answer a number of questions including:

- Are your sales people capable and willing to penetrate complex organizations and understand the strategic direction and needs of sophisticated chain operators?
- Can your sales people really develop solutions, or are they still selling product features and benefits?
- Can they build relationships across the organization, or are they stuck with purchasing?
- Based on the opportunity, and the expected demands of the chain, are the support services adequately resourced?
- Can they respond in the timeframe that the customer expects?
- Do the support services understand the culture and expectations of the customer well enough to meet expectations with the first submission of a product, menu concept or business building idea?

Chances are, you have a good sense of how your organization really stacks up in these areas. Now is the time to make the organizational and personnel adjustments to best meet customer expectations, before committing the resources to a sustained chain account focus.

Chain Account Targeting and Prioritization

The next step in the process is to look at the chain universe and conduct a screening exercise to select the chains you will put resources against. This is a multi-step process that looks at the obvious – soups and sauces don't fit with ice cream concepts – and the less obvious fits. Criteria we have used in the past with clients include:

- **Size of the Prize:** is the opportunity big enough to justify the investment?
- **Strategic fit:** Are your product categories important enough to the chain to be a priority? Are the chains strategies and priorities aligned with yours?
- **Accessibility:** Do you understand the real decision process? Do you have access to the decision makers? Are there any barriers to getting the business (long term relationships, distribution, breadth of offerings etc.)?
- **Financial Health:** Is the chain financially healthy? Are they growing, or pressuring suppliers for price and payment term concessions? What is their ownership structure – public company vs. private equity investors vs. privately held?
- **Transactional vs. Relational:** Are product decisions mainly based on price (bids, lowest landed cost etc.), or is the chain really looking for partners to help it grow?
- **Innovation Index:** How innovative is the chain in our product categories? Do they think about the menu in different ways? Are they known for trying different ideas, or have they not been very innovative in the past?

The goal of this process is to screen out non-value added chains. We typically advise our clients to have no more than 5 A-list (current customers and high priority prospects) chains per national account manager. Many times the goal is to get the top 500 chains down to 25 or 30 A-list chains, and 20 additional B-list chains. This allows the proper focus, and enough resources to be put against the opportunities to have a real impact on the business.

Deep Dive Due Diligence

Once the chains have been screened, it is time to do your homework on the chains to understand their business before you go and meet with them. The due diligence process has two real functions: first, it is a way for you to gain a detailed understanding of the chain's menu, operations, strategies and priorities before you ever meet with them. Second, by doing the work, and subtly letting the chain know you've done the work you are earning the right to have a meeting with the customer.

The Needs Assessment Process

The final step in the process is to begin to understand the real needs of the customer before you ever present a product, menu item or solution to them. This process is about asking thought provoking questions and really listening to the answers vs. presenting your ideas of what you think will fit with the chain. It is some more up-front work than simply going in with

product samples and a sell sheet, but it greatly increases your chances of selling something to the chain. This can be a difficult transition for some sales people that are used to doing more talking than listening to customers. We have implemented a needs assessment process with a number of national accounts and street sales organizations, and the improvement in business performance and sales effectiveness speak for themselves.

SUMMARY

As we mentioned early on, this Update is intended to be a top-line overview of the chain account strategy and prioritization process. In order to keep the length of this Update manageable, the steps outlined above are just the brief outlines of the real work involved. Over the next few months we will publish Updates on each of the specific steps with the details and information you need to get the work done and see your business results improve.

We hope you found this approach useful, and this and all the other Bellwether Updates can be found on our website at www.bellwetherfoodgroup.com. We welcome your comments and feedback on this or any other Update.

Best regards:

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