

The Evans Group LLC



The Climate of Denial

It should be obvious to the entire foodservice and hospitality community, specifically dealers and manufacturers, that our customers and the foodservice hospitality industry that our industry is in a massive climate of change:

- Business for all is down and each sign of hope is really just that.
- More and more, manufacturers are offering factory-direct pricing to chains, eliminating the profit margin for the dealer/distributor.
- Due to the consolidation of buying groups and our own exploration of just how low can we take the price, profit margins have dropped so dramatically for many distributors that we are seeing asset based sales where one dealer acquires another. These sales, of course, are the bankers' way of saying, "we have to sell because we have no money and are in debt beyond our capacity."
- Most true value added services have moved by the wayside, and Internet companies have come in to further change the market by selling from a position of low overhead, no installation and being able to ship without the customer having to pay sales tax. Our industry optimism may be false, or may be in such a state denial that we have not realized what has happened. The fundamentals of business have atrophied to a mere shell of what they once were. This includes such basics as:
 - Have a gross margin that covers your cost of goods sold
 - Prove a true service to the client or you are useless and will soon be gone
 - Be innovative in your work, and ahead of your competitors
 - Realize who pays your bills. (In case you forgot, it is your employees.) Treat them with the same respect as your customers.

Of course there is much more to running a successful business, but we've watched since our massive recession a complete climate of denial take place in our industry.

Chains believe their products are made for them with proprietary design, when actually only a few are. Chains believe they should be able to buy direct. Manufacturers often appease them with so-called net pricing but still maintain a hidden rebate for the dealer that installs the job. From the perspective of the supply chain that serves them, chains tend to be very difficult to gain entry to see, as they are protective of what is already specified and believe they know what is best.

Foodservice equipment and supplies manufacturers now have so many different pricing programs, rebates, special truckload buys, and quota volume levels, coupled with manufacturers reps offering special pricing that it is difficult often for them to know what deal they have given a customer.

Dealers are required to do more for less margin to get the business, and if anything goes wrong, which it always does, most of the job's profit is lost. Dealers must also perform on a cost plus basis special services that were at one time profit centers, further eroding margins.

This has allowed a new player to enter the market: the master foodservice consolidator that agrees to take and consolidate the equipment for a series of new stores or for a product roll out for the chain, operating on a cost plus basis.

What is important, no matter what your point of view, is that our antiquated industry continues to respond with antiquated talk. We attend buying group meetings and industry round tables where the small brains in the big suits brag about what they've done but we don't develop any real responses to the challenges mentioned here.

Industries and businesses live, breath and evolve by embracing the notion that they change or die.

So I ask you, is our industry changing for the better, or are we in a climate of denial?

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