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Verno's BEER BRIEF

THE WHOLESALE INDUSTRY'S LEADING BEST-PRACTICES PUBLICATION

IN THIS ISSUE

DELIVERY MINIMUMS

WHY YOU NEED TO USE A MINIMUM

We work with numerous ABI and MC wholesalers across the country. Our clients range from 1 million cases to over 30 million cases. Our clients can be in rural America or in the largest cities in America. We have clients that pay their sales reps $40k a year and clients that pay sales reps over $100k a year. Some of our clients pay drivers $45k a year and other clients pay their drivers close to $100k a year. Every client is different relative to size, employee make-up, and retail landscape.

Early on in our relationship with clients, almost 100% of them will ask, "Do we need a delivery minimum?" The answer we give is always the same but the reasoning and application is different for each wholesaler. ***Yes, every wholesaler needs to have some form of delivery minimum***.

While our answer is always "yes", the type of delivery minimum and how the minimum is implemented and managed varies by wholesaler.

In this issue of ***Verno's Beer Brief,*** we will start with how over 400 wholesaler execs responded to the delivery minimum question that was in our 2018 Beer Industry Survey. We will discuss how the delivery minimum is part of your overall strategy. We will review the problems caused by or contributed to as a result of not having a delivery minimum or the right minimum. We will also discuss specific questions you need to answer when you develop a delivery minimum or when you re-evaluate your current delivery minimum. Finally, we will provide simple Key Operating Indicators (KOIs) that will allow you to evaluate how well your delivery minimum is being managed.

2018 BEER INDUSTRY SURVEY

In our 2018 Beer Industry Survey, we asked, *"Do you have a delivery minimum?"* We gave wholesalers four possible answers to choose from. Over 400 wholesaler execs responded to the survey and answered as follows:

Do you have a delivery minimum?

Answer Key	Percent	
Yes, and we are strict in adhering to it.	19%	72%
Yes, but we are generally loose in adhering to it.	39%	
No, but we plan on establishing one.	14%	
No, and we don't plan on establishing one.	28%	

When you add up all the execs that already have a minimum and the ones that are planning on implementing a minimum, the total is 72% of all wholesaler execs. Seventy two percent is a pretty compelling number that supports that delivery minimums are a necessary and valuable management tool. Obviously, we don't know how many of the 14% that say they plan on implementing a minimum, will actually do so.

PROBLEMS WITH AN INEFFECTIVE DELIVERY MINIMUM

Why have a delivery minimum policy? Is the pain of implementing a minimum policy worth the benefit the policy provides? And, equally important, is the pain that comes from NOT implementing a minimum policy worth it?

Just as there are many benefits a properly designed and managed delivery minimum policy provides the wholesaler, retailer, and suppliers, there are also consequences that come from not implementing a minimum. The following are just some of the problems that may result from not having an effective delivery minimum policy in place.

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TOO MUCH SERVICE IS BAD SERVICE

If a wholesaler provides too much service or over-services his or her accounts, usually retailers suffer:

- Small accounts get inconsistent service
- Larger accounts get short changed on their service and selling time because sales reps are rushing through accounts

EMPLOYEE BURNOUT INCREASES

Today, every wholesaler is trying to retain sales reps, merchandisers, and drivers, and the lack of an effective delivery minimum will contribute to employee burnout and turnover.

- Sales reps will have too many stops per day. With an increasing number of execution objectives, too many stops, and strict order cut off times, the number of stops per day affects both sales execution and eventual sales burnout. An effective delivery minimum can help manage sales reps daily call workload.
- Drivers can make as much or more money driving a truck for a non-beverage company and not have to lift 600 cases a day and work 10 or more hours. A delivery minimum will help manage the number of stops and improve the driver's workload and reduce driver burnout.

SALES EXECUTION SUFFERS

If sales reps have too many stops or if accounts are being over-serviced, this often translates into reps not having enough time-to-sell. Not having enough time-to-sell negatively impacts the wholesaler, the retailer, and the supplier.

WAREHOUSE PRODUCTIVITY SUFFERS

It takes just as long to pick 10 cases as it does to pick 5 cases. A delivery minimum should result in improved warehouse productivity. The less number of small orders the picking crew has to pick, the higher the picking productivity.

COST PER STOP

We would be remiss if we discussed a delivery minimum policy without addressing the concept of cost per stop. Most wholesalers don't have a cost per stop number that they use when looking at delivery minimums or frequency.

Each wholesaler should calculate his or her cost per stop. This cost number helps managers and supervisors understand the reason a delivery minimum is necessary and helps when setting the dollar or case amount of the delivery minimum.

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In our consulting practice, we use time as the main variable in determining cost per stop. All stops don't take the same amount of time and don't have the same costs. A 40-minute stop should cost twice as much as a 20-minute stop. In 2010, we published a Beer Brief on the topic of Breakeven Cost Per Stop. If you need a copy of the issue, please let us know.

MOST WHOLESALERS HAVE A DELIVERY MINIMUM

Most wholesalers have some form of delivery minimum. We have seen minimums be as low as 5 cases a week and as high as 100 cases a week depending on the channel and the wholesaler. When we meet a new client we typically interview all of the managers and supervisors. These interviews cover the wholesaler's overall strategy and how the manager's role fits or is aligned with the strategy. This interview also includes the individual manager's roles and responsibilities, their workload, how performance is measured, how they are paid, how they interface with other departments, recommendations they have to improve their area and other areas of the company, the current policies, and how the policies are being used.

It's not uncommon to interview 10 or more sales and delivery managers and supervisors and get at least three or four different interpretations of the company's delivery minimum policy. Interpretation of the minimum delivery policy can vary between departments and within the same department. Also, we often get a variety of interpretations with regards to how the policy is enforced and how managers manage with the delivery minimum policy. As you would expect, the interpretation and application of a company's delivery minimum policy often varies significantly between the sales and delivery departments. If you have 5 to 20 managers and supervisors and 10 to 50 sales reps, and they each have their own interpretation of the delivery minimum policy and how it's to be managed, then you really don't have a policy. What you have is a convenient way for everyone to do whatever they want, whenever they want.

The message here is simple:

> JUST BECAUSE YOU CURRENTLY HAVE A DELIVERY MINIMUM POLICY DOESN'T MEAN YOU CAN CHECK THE BOX AND SAY ALL IS GOOD WITH THE MINIMUM AND ITS EFFECTIVE.

If you don't have a minimum and plan on implementing one, the message is:

> DON'T ASSUME THE NEW MINIMUM POLICY WILL BE IMPLEMENTED AND MANAGED AS YOU INTEND.

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DEVELOPING A NEW DELIVERY MINIMUM POLICY (OR EVALUATING YOUR CURRENT DELIVERY MINIMUM POLICY)

QUESTIONS YOU SHOULD ASK

1. WHAT'S YOUR OVERALL BUSINESS STRATEGY?

- *How does service figure into your overall business strategy? Do you plan to be the service leader? Do you plan to match the competition's service? Is your service positioning versus the competition the same for all accounts?*
- *Is service a differentiator or an "ante" that everyone is providing and the customer now expects?*
- *How much budget do you have to provide the current levels of service? Service leadership is the most expensive business strategy if its not managed effectively and with discernment.*
- *Are their areas of the company where resources can be redirected in order to pay for service, provide improved results, and better return on costs?*
- *How does coverage and frequency of your smaller accounts figure into to your overall strategy?*
- *What is the mix of level of service and strength of portfolio with regards to your main value proposition to retailers?*
- *Does the retailer hold you to the same service standard as they hold your competition?*

2. DOES THE COMPETITION HAVE A DELIVERY MINIMUM?

- *Do you know for sure if they have a delivery minimum policy?*
- *If the policy is published, can you get a copy of the policy?*
- *How high is the competition's minimum policy?*
- *How strictly do they enforce the policy?*

3. WHAT GOALS ARE YOU TRYING TO ACHIEVE WITH YOUR DELIVERY MINIMUM?

Some examples may be:

- Reduce number of stops
- Provide better overall service to the market
- Reallocate resources from unprofitable stops to opportunity stops
- Save costs to improve or maintain profits

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- Save costs to offset cost increases in other areas
- Increase time-to-sell
- Create more manageable workloads for sales and delivery

4. WILL YOUR DELIVERY MINIMUM POLICY BE A "HARD" OR "SOFT" POLICY?

A "hard" policy means that if an order is below the minimum, it won't be delivered. Hard policies are communicated to the market (where legal). Most wholesalers don't implement hard policies.

A "soft" policy means that the wholesaler will be more tolerant of the orders below the minimum and try to manage future orders from the same retailer to ensure the minimum policy is not abused. Most soft policies are internal and not communicated to the customer. Wholesalers change sales call frequency in order to get the account to the delivery minimum order size. An overly soft policy usually evolves into a non-existent policy.

5. IS YOUR DELIVERY MINIMUM POLICY GOING TO BE AN EXTERNAL POLICY OR AN INTERNAL POLICY?

An eternal policy is one where the minimum is formally communicated to retailers and then enforced. This is usually more aligned with the hard policy discussed in point #4 above. In some markets, having a published delivery minimum policy is in violation of the alcohol commission's rules. Wholesalers should check before developing a policy.

An internal delivery minimum policy is a policy where the wholesaler develops a minimum delivery target. The sales and delivery teams then identify the accounts that are currently ordering below the new minimum target. These accounts may have historical orders below the new minimum for all of their orders or below the minimum three or four times per year.

Once the sales and delivery teams identify the accounts with orders that are falling under the new delivery minimum, the teams work to adjust the frequency of each of the accounts so that the orders will be above the minimum. Once the new frequency of the accounts has been communicated to the account, if the account occasionally (once or twice a year) has an order below the minimum, the order is still delivered. If a pattern develops where the majority of an account's orders are still below the target minimum, then the service frequency for the account is adjusted again. With an internal delivery minimum, the accounts are not formally told there is a delivery minimum. It's all about managing the frequency.

6. WHICH ACCOUNTS WILL MOST LIKELY BE IMPACTED WITH A DELIVERY MINIMUM?

- *Does the delivery minimum predominately impact smaller accounts?*

7. WHICH TWICE-A-WEEK ACCOUNTS WILL BE IMPACTED?

- *Do you need one delivery minimum for all channels or should the delivery minimum be different by channel?*

> YOU NEED TO TEST VARIOUS DELIVERY MINIMUMS AGAINST YOUR ACCOUNT DATABASE TO SEE WHICH ACCOUNTS WILL BE IMPACTED AND HOW OFTEN. THIS OFTEN REQUIRES SOME FORUM OF MODELING.

8. WHAT IS THE MAKE-UP OF YOUR PRODUCT MIX?

- *What's your mix between craft, high-end, and core brands?*
- *What's your mix between package and draft?*
- *How do you see your product mix changing over the next 12 to 24 months?*

9. SHOULD THE DELIVERY MINIMUM BE THE SAME FOR ON-PREMISE AND OFF-PREMISE?

- Many craft suppliers are focused more towards on-premise.
- Draft is typically very important and coveted by both wholesalers and suppliers and they believe draft needs to be protected. *Should the minimum delivery policy have a separate provision for draft?*
- Off-premise accounts typically have more storage room than on-premise. *Should you have a different delivery minimum policy for on- and off-premise?*
- *Will having different policies for on- and off-premise be more confusing and more difficult to manage?*
- *Is you cost per stop different for an off-premise stop compared to an on-premise stop with the same cases on both types of stop?*
- *Which channel is being impacted greater by the number of smaller stops?*

10. SHOULD ALL ACCOUNTS BE TREATED THE SAME WITH REGARDS TO DELIVERY MINIMUMS?

- *Should the delivery minimum policy be the same for A, B, and C accounts for MC wholesalers?*
- *Should the delivery minimum policy be the same for B, U, and D accounts for ABI wholesalers?*
- *Are you really going to enforce the policy when an A or high B (or B or higher U if ABI) account needs beer?*

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11. CULTURALLY, ARE YOU MORE FOCUSED ON CASES OR DOLLARS?

- *Does your company still look at all cases of beer being equal?* (We hope not.)
- *Does it make sense to start with a case minimum or dollar minimum?* With product mix being so important, having a minimum based on dollars is usually preferred over cases.

12. WHAT ARE THE ALLOWABLE EXCEPTIONS TO THE DELIVERY MINIMUM POLICY?

- *Will you have certain criterion that allows an account to be treated differently with regards to the delivery minimum policy?*
- *How many accounts will be treated as exceptions and what number of exception accounts means that your policy is too weak or too lenient?*

13. WHO WILL BE THE DELIVERY MINIMUM ENFORCER?

- *Is delivery management going to be able to say "no" to making a delivery if the order is below the minimum or if the account is a chronic abuser of the policy?*
- *Can sales management override delivery or warehouse?*
- *How are "too many" exceptions going to be communicated to the larger management team?*

14. WHAT LEVEL SHOULD YOUR DELIVERY MINIMUM BE?

- *How many accounts will be impacted at various minimum level options?*
- *How many actual stops will be saved at various minimum level options?*
- *How often do you want to change or revise the minimum?*

15. ORGANIZATIONALLY, WILL THE SALES AND DELIVERY DEPARTMENTS SUPPORT YOUR DELIVERY MINIMUM POLICY?

- *Will the sales and delivery departments understand the new minimum policy?*
- *Will sales and delivery provide the "first line of defense or support" when individual retailers try to buck the new policy?*
- *Will sales adjust their sales practices and frequencies to support the new policy?*
- *Will sales management hold individual reps accountable for his or her route's number of orders below the minimum?*

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16. HOW MUCH BACKBONE DO YOU HAVE TO ENFORCE A DELIVERY MINIMUM?

- *Will you "have your managers' backs" when retailers complain about the formal minimum policy or the account's new delivery frequency?*
- *If an account puts you in the penalty box, what will you do and what message will you send your team?*

WHAT WE TYPICALLY SEE WITH WHOLESALERS

As we stated earlier, service policies vary by wholesaler. None-the-less, here is what we see most often in our experiences working with wholesalers all over the country:

- Most wholesalers realize that service is more of a commodity or ante, and not a huge differentiator unless it's done poorly. One wholesaler will have a service advantage over another wholesaler only when the other wholesaler is significantly worse at service.
- Most wholesalers don't use a hard policy. A soft policy that is internal is more typical than an external, hard policy. Eventually, a few years from now, all delivery minimum policies will be hard.
- The vast number of wholesalers will opt for an internal policy rather than an external policy. Those opting for an external policy typically are not at a significant disadvantage compared to their competition. The external policy usually only affects the smaller accounts.
- Delivery minimums typically impact the smaller accounts. Minimums also affect larger accounts that place a big order and then want a second smaller order later in the week.
- Most delivery minimums are stated in terms of dollars and not cases. Seven cases of craft are more profitable than 7 cases of premium lights. Wholesalers that lean towards cases and not dollars need to use a dollar minimum as one more step in changing their overall culture.
- It's common to have a different delivery minimum for on- and off-premise. Having two minimums is more difficult to manage. Unless the off-premise minimum is significantly higher than the on-premise minimum, it doesn't always make sense to have two different minimums. It's important to note that some of the largest and most successful wholesalers in the country have different delivery minimums for on-premise, c-store, and grocery that are both hard and external.
- The more high-end the product mix, the more wholesalers should use dollars and not cases.
- We typically suggest reviewing your delivery minimum every year. It's best to change the minimum every other year. Changing the minimum too often can be confusing to retailers and each time the minimum is changed, sales and delivery routes will need to be adjusted. Be aggressive with setting the level of your minimum and think that it needs to be effective for at least two years.

KEY OPERATING INDICATORS

It's very important to measure how well your delivery minimum is being managed and whether or not your goals are being achieved. Failure to measure your delivery minimum policy will often result in the policy growing weaker and eventually disappearing. Delivery minimum are not always easy to implement and often require a lot of hard work and communication with retailers. All that effort will be wasted if the delivery minimum policy doesn't stick and is allowed to disappear.

The following Key Operating Indicators (KOIs) can be measured for the total company, by premise, and by sales rep.

- Total number of deliveries made this period this year versus the same period last year
    - Number of orders below the minimum
    - On
    - Off
    - Package only
    - Draft
- Number of accounts abusing the delivery minimum policy (need to define abuse, accounts that often try to place orders below the minimum)
- Number of accounts that need to have their service readjusted in order to achieve the minimum delivery target
- Number of orders below the minimum that the delivery department refused to delivery
- Number of accounts that have put you in the "penalty box"
- Sales trend of total accounts that had service reduced to achieve target minimum delivery versus
    - Same accounts trend prior to the change in service compared to after the service change
    - Sales trend in accounts not impacted by the new delivery minimum
- Total sales and delivery payroll cost per stop before the change in delivery minimum compared to the payroll cost per stop after the change in delivery minimum policy
- Average stops per day per route before the new policy compared to after the policy
    - Delivery
    - Sales
- Average hours worked per route before the new policy compared to after the policy
    - Delivery
    - Sales

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CONCLUSION

Every wholesalers needs to have a delivery minimum policy - it's just a matter of what type of policy and how does the policy align with the wholesaler's overall business strategy. One could argue that having a delivery minimum policy could put the wholesaler at a competitive disadvantage. I think the better argument is that a wholesaler with a delivery minimum policy has gone through the exercise of prioritizing their accounts and allocating their sales and delivery resources accordingly.

Management-directed use of sales and delivery resources is a better strategy than too much service or over-spending service in certain accounts at the expense of the medium and larger opportunity accounts. At some point, every wholesaler realizes his or her service resources are limited. We haven't run into any wholesalers who can continue to increase their investment in service without at some point running into a cost problem and execution suffering. As we said earlier, good service is essential. All accounts are important. Some accounts are more important than other accounts.

The key is to make sure the right accounts are getting the right service. Failure to manage service often results in diminishing return on service investment and the larger accounts receiving less service in order to pay for providing too much service to the rest of the market. A sound delivery minimum policy is a key component to managing service investment.

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